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I

ORGANIZATION

OF THE

AMERICAN ECONOMIC

ASSOCIATION.

PUBLICATIONS
OF THE
AMERICAN ECONOMIC ASSOCIATION.

VOL. I. NO. 1.

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REPORT
OF THE
ORGANIZATION
OF THE
American Economic Association.

BY RICHARD T. ELY, Ph. D.,
Secretary.

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REPORT
OF THE
ORGANIZATION
OF THE
AMERICAN ECONOMIC ASSOCIATION.

The need of an association designed to promote independent economic inquiry and to disseminate economic knowledge was keenly felt long before any determined effort was made to establish the desired organization. Suggestions looking to the formation of a society of economists were heard from time to time, but no active steps in this direction appear to have been taken before the spring of 1885, when it was agreed that the time was ripe for action, and it was determined to test the feelings in this matter of those who would be likely to prove helpful in associated scientific work in economics. The class of men required for this purpose was, it was believed, a large and constantly growing one. Men were wanted who were investigators, men, consequently, who did not believe that the entire range of economic knowledge had been compassed. It follows from this that it was not proposed to form a society of advocates of any political opinion or set of political opinions, as for example, free-trade or protection. It was not meant to deny that a free-trade club or a protectionist club might have its legitimate sphere, but it was held that this sphere lay outside the realm of science. Likewise it was not aimed to form a society to champion any class interests, either of rich or of

poor, either of employer or of employé. What was desired was a society which, free from all trammels, should seek truth from all sources, should be ready to give a respectful hearing to every new idea, and should shun no revelation of facts, but, on the contrary, should make the collection, classification and interpretation of facts its chief task. The ideal of this new society, as it presented itself to the minds of its projectors, was to seek light, to bear light, to diffuse light—ever the highest aim of all true science.

A statement of the objects of the proposed association and a platform were drawn up, which, while intended to be merely provisional, would be calculated to attract those who believed in economic research, who thought that there was a great work to be done in economics, and who for other reasons might be able to work together profitably. This platform, it must be distinctly asserted, was never meant as a hard and fast creed which should be imposed on all members, and least of all was it intended to restrict the freest investigation. The statement of objects and the proposed platform read as follows :

OBJECTS OF THIS ASSOCIATION.

- I. The encouragement of economic research.
- II. The publication of economic monographs.
- III. The encouragement of perfect freedom in all economic discussion.
- IV. The establishment of a bureau of information designed to aid all members with friendly counsels in their economic studies.

PLATFORM.

1. We regard the state as an educational and ethical agency whose positive aid is an indispensable condition of human progress. While we recognize the necessity of individual initiative in industrial life, we hold that the doctrine

of *laissez-faire* is unsafe in politics and unsound in morals; and that it suggests an inadequate explanation of the relations between the state and the citizens.

2. We do not accept the final statements which characterized the political economy of a past generation; for we believe that political economy is still in the first stages of its scientific development, and we look not so much to speculation as to an impartial study of actual conditions of economic life for the satisfactory accomplishment of that development. We seek the aid of statistics in the present, and of history in the past.

3. We hold that the conflict of labor and capital has brought to the front a vast number of social problems whose solution is impossible without the united efforts of Church, state and science.

4. In the study of the policy of government, especially with respect to restrictions on trade and to protection of domestic manufactures, we take no partisan attitude. We are convinced that one of the chief reasons why greater harmony has not been attained, is because economists have been too ready to assert themselves as advocates. We believe in a progressive development of economic conditions which must be met by corresponding changes of policy.

A prospectus containing this statement and platform was sent to a majority of those interested in political economy in our colleges and met with a hearty response in nearly every quarter. While there were not wanting criticisms of some of the phrases, there was general approval of the aims of the projected American Economic Association. The following names may be mentioned among those who were consulted, and who favored the plan of such an association as has been described:—Professors Henry C. Adams, John B. Clark, Edwin R. A. Seligman, Alexander Johnston, Arthur Yager, Woodrow Wilson, G. B. Newcomb, James H. Canfield and Jesse Macy. General Walker was not in the

United States, but his sympathy with the general views of those whose names have been mentioned was well known. Indeed, it was no secret that these gentlemen had derived their scientific impulse largely from him; and that his active support would be given was not for a moment doubted. Prominent clergymen who had observed the practical bearings of the science of political economy, and had come to see, with Arnold, that "a faulty political economy is the fruitful parent of crime," promised their hearty co-operation from the start. Among them may be mentioned Rev. Dr. Lyman Abbott and Rev. Dr. Washington Gladden. Practical politics was represented by men like Hon. Carroll D. Wright, Commissioner of Labor of the United States Bureau of Labor.

The following extracts from letters received by the Secretary of this Association previous to the meeting for organization, will show the hearty welcome with which the proposed society was greeted.

DR. ALBERT SHAW, editor of the *Minneapolis Tribune*, wrote: "The time is ripe for the movement. . . . It seems to me the society will be a decided success from the start."

PROFESSOR HENRY C. ADAMS of Michigan expressed himself as follows: "The more I think of the project you have set on foot, the more am I convinced that it is timely, and that the association may be made the centre of a marked influence upon economic thought."

DR. WASHINGTON GLADDEN said: "I hope to co-operate in the organization of your society, in which I am deeply interested."

PROFESSOR J. B. CLARK of Smith College wrote: "The plan proposed is quite in line with my views and wishes. I shall be glad to be counted in in such an organization."

Other extracts from letters are as follows:—

PROFESSOR J. W. MONCRIEF: "It will afford me pleasure and profit to be a member of such an association."

PROFESSOR A. E. ROGERS of State College, Maine: "I heartily endorse the platform and think that it furnishes a

good foundation on which to build; for surely the fact that our current economic doctrines (i. e., current in the classroom) find so little acceptance in the business and political world, indicates a defect somewhere, either in the premises or mode of reasoning."

DR. LYMAN ABBOTT of the *Christian Union*: "I need hardly say that I am cordially glad to see an organic effort made to develop a more Christian and, as I believe, a more truly scientific political economy. I shall be very glad to co-operate in any way in my power in promoting your plans and purposes."

PROFESSOR E. B. ANDREWS of Brown University: "The more I reflect upon it, the more I am satisfied that such an organization cannot but be productive of good."

PRESIDENT WHITE of Cornell: "I agree with you entirely that the *laissez-faire* theory is entirely inadequate to the needs of modern states. I agree, too, entirely with the idea that we must look not so much to speculation, as to an impartial study of actual conditions of economic life, etc. In fact I like your whole statement, and I hope to connect myself with your association after my return from Europe—probably next summer."

The idea of an association of economists was encouraged by the press of the country, as is sufficiently shown in the following interesting and suggestive extracts from articles in the *Christian Union*¹ and *Philadelphia Times*.² While these articles may in some particulars fail to present the views of members of the American Economic Association with perfect accuracy, they at least exhibit a certain drift of public opinion.

¹ July 23, 1885.

² August 20, 1885.

From the Christian Union.

THE NEW POLITICAL ECONOMY.

“Political Economy has well been called the ‘dismal science;’ it may also be called the unprofitable science. ‘For my part,’ said Daniel Webster, ‘though I like the investigation of particular questions, I give up what is called the science of political economy. There is no such science. There are no rules on these subjects so fixed and invariable that their aggregate constitutes a science. I believe I have recently run over twenty volumes, from Adam Smith to Professor Dew; and from the whole if I were to pick out with one hand all mere truisms, and with the other all doubtful propositions, little would be left.’

“It has been palpably an unchristian science, for it has been avowedly organized selfishness. It is based on the assumption that the only motive for human action in trade and commerce worth considering is the motive of self-interest. ‘Once place a man’s ear,’ says Lord Sherbrooke, ‘within the ring of pounds, shillings, and pence, and his conduct can be counted on to the greatest nicety. I do not, of course, mean that everybody really acts alike where money or money’s worth is concerned, but that the deviations from a line of conduct which can be foreseen and predicted are so slight that they may practically be considered non-existent.’ No less was this political economy unscientific. It made no endeavor to ascertain how men actually do act; it only undertook to philosophize respecting the results, provided they acted in a certain assumed manner. ‘Political economy,’ says one of the teachers of the old school, ‘in so far as it lays down general propositions, is a science of reason rather than a science of observation; it has for its aim reasoned knowledge of the relations which flow from the nature of things.’

“There has recently sprung up in Germany, to which we owe so much, a new school of political economy, which is pursuing the inductive method, ascertaining how men act-

ually do act, gathering statistical and historical material, and educing the laws of human action from a wide observation of phenomena, as the laws of nature have been educed since the days of Bacon. In this country this new school of political economy, which, because it is inductive and truly scientific, finds itself compelled to be Christian—since Christianity is the highest form of the science of human nature—has, as yet, not acquired the influence on public opinion which it is destined to wield in the near future. There are very few prominent daily or weekly newspapers which habitually recognize either Christian principle or extended, pains-taking observation in the treatment of industrial and sociological questions. There are, however, numerous young progressive men in our colleges who have cast off allegiance to the old political economy, and who propose to unite with others like-minded in the formation of an American economic association. Among these may be mentioned Professors Henry C. Adams, of Michigan and Cornell Universities; James H. Canfield, of the University of Kansas; J. B. Clark, of Amherst and Smith Colleges; R. T. Ely, of the Johns Hopkins University; Woodrow Wilson, of Bryn Mawr; Arthur Yager, of Georgetown, Ky.; W. W. Folwell, of the University of Minnesota; Cooper, of Carleton College; G. Campbell, of Dartmouth, and others. President Andrew D. White has expressed sympathy with the movement, and it is hoped that he will lend his active aid upon his return from his year's absence in Europe. The new President of Cornell University, Professor Charles K. Adams, likewise favors it, while Professor Alexander Johnston, of Princeton, wishes to be enrolled among the followers of the new political economy.

“The pulpit in this, as in many other matters, has proved itself a leader, and although the preachers, burdened with the necessities of daily pastoral work, are not learned in this or other sciences as specialists, yet the pulpit discussions of the practical questions of the day are in this sense taking a leader-

ship—that they indicate the direction and trend of thought. With the exception of two or three men, it will be difficult to name any more advanced thinkers in the new school of political economy than Dr. A. H. Bradford, Dr. Washington Gladden, and Dr. Newman Smyth. . . .

“We are glad to be able to announce the existence of two organizations which promise to do much toward meeting this demand.¹ The first is the “Institute of American Civics.” Its object is to promote the study of politics rather than of political economy, but the two are so intimately interwoven as to be practically inseparable. The other organization, as we have intimated, is still in the process of formation. . . . Its purpose is to promote by publication, agitation, mutual conference, and study, and thus accumulated observation and investigation, a new political economy which shall recognize in man some other and higher motive than that of self-interest; which shall acknowledge the aphorism of Professor Ely, ‘From a purely scientific standpoint, we do not live for ourselves alone, but for one another as well as ourselves;’ which by combination shall give character and dignity to a new science, liable without such combination to be ignored by the public as the vaporings or the idiosyncrasies of individuals; which, in a word, shall aim forcibly and efficiently to meet and supply the demand which De Tocqueville has interpreted: ‘A new science of politics is needed for a new world.’ The *Christian Union* gives hearty greeting and Godspeed to both these organizations.”

From the Philadelphia Times.

“The idea of the proposed association is to begin at the beginning, accepting nothing as indisputable, just because some great political economist said so. If the great political economist failed to prove it, so much the worse for the great

¹ That is “for a larger discussion and a better light.”

political economist. Free discussion and correspondence is to be welcomed, and no argument which contains a grain of sense is to be repudiated as worthless. Digests of the material collected are to be published from time to time, and conclusions that are indicated even from the start will not be hastily accepted, or accepted at all, until all the returns are in which can be expected of the current stage of civilization, and even then everything will be held provisionally. . . . The scope of this enterprise is greater than that of any official Bureau of Labor Statistics can well be, because its operations will be less liable to interruption through a change of party supremacy or a failure of appropriations. It ought to do good."

It was finally decided to meet at Saratoga at the time of the annual meeting of the American Historical Association, which had been announced for September 8-11. This seemed desirable, as nearly all who wished to form the Economic Association belonged at the same time to the Historical Association. In response to a call signed by Professors H. C. Adams, J. B. Clark and R. T. Ely, and read in a public meeting of the Historical Association, the following gentlemen, among others,¹ met in the Bethesda Parish Building at four o'clock, September 8th, 1885, to take into consideration plans for the formation of an American Economic Association:

Hon. Andrew D. White, President C. K. Adams, Professor H. C. Adams, Professor R. T. Ely, Professor E. J. James, Rev. Washington Gladden, Professor E. Benjamin Andrews, Rev. Samuel W. Dike, Professor J. B. Clark, Mr. V. B. Denslow, Professor Alexander Johnston, Dr. E. R. A. Seligman, Professor H. B. Adams, Mr. F. B. Sanborn, Miss Katharine Coman, Mr. Davis R. Dewey, Edward W. Bemis, Ph.D., Mr. John A. Porter, Clarence Bowen, Ph.D., Professor Herbert Tuttle, Hon. Eugene Schuyler.

¹ A complete list was not kept, and the Secretary is unable to remember all the names of those present.

DR. JAMES called the meeting to order and nominated Professor Henry C. Adams as temporary Chairman. Professor J. B. Clark then nominated Dr. R. T. Ely as temporary Secretary. These gentlemen were thereupon elected.

DR. ELY was then called upon to make a statement in regard to the purposes of the proposed association.

STATEMENT OF DR. RICHARD T. ELY.

After describing the events which had led to the meeting then being held, Dr. Ely continued as follows:—¹

One conclusion is undoubtedly warranted. The time is ripe for such an association.

Passing over to the prospectus, it is scarcely necessary to say much about the first three "objects" of the association. We want to encourage research by the employment of all means at our command, and to publish monographs. This seems better than the publication of a journal of political and economic science, for the reason that it promises nothing which cannot be fulfilled. It is important to avoid anything which can prove a fiasco, always discouraging and likely to subject one to ridicule. It seems to me—and all consulted have been of the same opinion—that we ought by no means to attempt anything which will not in all probability prove a success. If we take one step at a time, we shall make satisfactory progress and I think in the end, rapid progress. The idea, then, is to publish matter worthy of publication as fast as we may be able to do so. If the series of monographs should in course of time grow naturally into a magazine, we could rejoice in a substantial success.

¹ It must be borne in mind that this statement is simply the individual statement of Dr. Ely. It gives an expression of the aims of the association as they presented themselves to his mind. While some endorsed it all without reservation, others objected strongly to some of his views. The statement has never been accepted by the American Economic Association as an authoritative expression of its views and aims.

The fourth "object" contemplated in my opinion and I think in the opinion of others who assisted in formulating the "objects"—was merely advice to those throughout the country who should join the association and desire to pursue economic studies systematically. This advice might be by means of printed lists of books to be read, accompanied by useful suggestions about profitable methods of study and research. But in the editorial about our movement in the *Philadelphia Times* of August 20th, I find an idea which may prove valuable. The writer of this editorial in question evidently supposed the intention was to establish a Bureau for the collection of statistical, social and economic material—"Quellen-Material"—digests of which were to be published. The final paragraph of the article reads as follows: "The scope of this enterprise is greater than that of any official Bureau of Labor Statistics can well be, because its operations will be less liable to interruption through a change of party supremacy or a failure of appropriations."

This is ambitious but may it not prove practicable? Might we not gather together at some central point a mass of valuable material? The work indicated is, I think, somewhat similar to that of the London Statistical Society, which has its own library, and it is such work that Professor Henry C. Adams suggests that we undertake.

One aim of our association should be the education of public opinion in regard to economic questions and economic literature. In no other science is there so much quackery and it must be our province to expose it and bring it into merited contempt. A review at each of our meetings of the economic works of the past year, if published in our proceedings, might help in the formation of enlightened judgment.

Coming to the platform, a position is first of all taken in regard to the state, because it is thought necessary precisely at this time to emphasize its proper province. No one invited to join this association, certainly no one who has been active in calling this meeting, contemplates a form of pure social-

ism. "We recognize the necessity of individual initiative." We would do nothing to weaken individual activity, but we hold that there are certain spheres of activity which do not belong to the individual, certain functions which the great co-operative society, called the state—must perform to keep the avenues open for those who would gain a livelihood by their own exertions. The avenues to wealth and preferment are continually blocked by the greed of combinations of men and by monopolists, and individual effort and initiative are thus discouraged. Two examples will suffice—You know that in the Western grazing regions water is often scarce, and those who control the streams virtually own the country. Now it is a notorious fact that unlawful combinations seize upon these streams and, keeping others from them, retain exclusive privileges which shut off effectually individual exertions on the part of those not in the ring. A second example is found in unjust discriminations in freight charges which have built up the fortunes of the favored, and ruined competitors. In looking over the field of economic life, it is evident that there is a wide feeling of discouragement, repressing the activities of the individual, because the avenues to material well-being are so often blocked. Then there are things which individuals ought not to perform because the functions concerned are public; and in certain places the wastes of private competition are too enormous. There are, likewise, important things which individual effort is powerless to effect, e. g., the education of the masses.

We hold that the doctrine of *laissez-faire* is unsafe in politics and unsound in morals, and that it suggests an inadequate explanation of the relations between the state and the citizens. In other words we believe in the existence of a system of social ethics; we do not believe that any man lives for himself alone, nor yet do we believe social classes are devoid of mutual obligations corresponding to their infinitely varied inter-relations. All have duties as well as rights, and, as Emerson said several years ago, it is time we

heard more about duties and less about rights. We who have resolved to form an American Economic Association hope to do something towards the development of a system of social ethics.

It is asked: what is meant by *laissez-faire*? It is difficult to define *laissez-faire* categorically, because it is so absurd that its defenders can never be induced to say precisely what they mean. Yet it stands for a well-known, though rather vague set of ideas, to which appeal is made every day in the year by the bench, the bar, the newspapers and our legislative bodies. It means that government, the state, the people in their collective capacity, ought not to interfere in industrial life; that, on the contrary, free contract should regulate all the economic relations of life and public authority should simply enforce this, punish crime and preserve peace. It means that the laws of economic life are natural laws like those of physics and chemistry, and that this life must be left to the free play of natural forces. One adherent uses these words: "This industrial world is governed by natural laws . . . These laws are superior to man. Respect this providential order—let alone the work of God."

The platform then emphasizes the mission of the State and the mission of the individual in that State. *To distinguish between the proper functions of the two must be one of the purposes of our association.*

The mission of the Church is likewise emphasized, and for this there is good reason which cannot, perhaps, be better stated than in the words of Professor Macy of Iowa College. I quote from a letter recently received from him:

"The preacher, in an important sense, is to be the originator of true social science; his work is to render possible such a science.

"The physical scientist needs no preacher. There is an external material thing which compels belief. For the most part, men have no selfish interest in believing other than the truth in regard to the material world. Those who devote

themselves to the study of matter are led naturally into a truth-loving and truth-telling spirit, and they can laugh at the preacher. But those who devote themselves to the study of the conflicting interests of men, have on their hands altogether a different task. There is no external material thing to solve their doubts, and men prefer to believe that which is not true; and when they believe the truth they often think it best to pretend to believe the false. Falsehood, deception, lying, and above all an honest and dogged belief in error—these are athwart the path which might lead to a real social science. And who can tackle these better than the preacher?"

In addition to these words of Professor Macy, it may be said that we wish to accomplish certain practical results in the social and financial world, and believing that our work lies in the direction of practical Christianity, we appeal to the church, the chief of the social forces in this country, to help us, to support us, and to make our work a complete success, which it can by no possibility be without her assistance.

The religious press of the country can aid us greatly in our task, and it will not, I believe, refuse its co-operation. Its influence is enormous, and notwithstanding all that has been said against it to the contrary, I believe that to-day it is the fairest, purest and most liberal press in the country. The fourth paragraph in the platform seems to me to be imperatively necessary. We want to proclaim to the world that political economy is something much broader than partisan controversies about free-trade and protection, that we are in fact neither free-traders nor protectionists in the partisan sense of those words.

It may be asked: Why have any platform at all? Why not simply invite all interested in political economy to come together and aid in economic research?

The reply is not a difficult one. This association intends to combine two ends. It proposes to influence public opinion; also to investigate and study. Now, if there has ever been found in any place an economic society without the advocacy,

either open or concealed, of certain tendencies, at least, it has not come to my knowledge. I do not believe it would be wise to attempt such a thing. The fundamental differences between economists are so radical that they cannot all work profitably together.

Our platform is very broad and will include nearly all those who can co-operate advantageously with us. It advocates simply certain methods of study and the accomplishment of reforms by certain means which alone seem to us to promise valuable results. We believe in historical and statistical inquiries and examinations into actual conditions, and should we include those who do not, there would be division at the start. If two people are journeying together to a certain goal and come to a fork in the road, it is evident that they must part company if each insists on believing that their common destination lies in a different direction. That is our case. We have little faith that the methods advocated by certain economists will ever lead to any valuable results. They may take their own way, and far be it from us to hinder them, but we must part company.

Again, it is not easy to arouse interest in an association which professes nothing. This proposed economic association has been greeted with enthusiasm precisely because it is not colorless, precisely because it stands for something.

Finally, it is of the utmost importance to us to emphasize certain fundamental views in order to bring them prominently before the public. It is essential that intelligent men and women should distinguish between us and certain economists in whom there is little faith. The respect for political economy, as it has been hitherto taught, is very slight. I think it has been kept alive largely by ignorance on the one hand—on the other by the cloak it affords to wrong-doing and the balm it offers to still the voice of outraged conscience. On every side we find intelligent people dissatisfied with it, throwing all political economy to the winds, while John Stuart Mill repudiated his own economic system, and one

of the most careful students of economic facts, Thorold Rogers, finds its conclusions so at variance with the results of his investigations, that he rejects it with scorn, and believes it necessary to build up a new political economy by a long and careful process, piecemeal, as he himself expresses it.¹ We of this association must come before the public with the unequivocal assertion that we, also, refuse to accept as final "the statements which characterize the political economy of a past generation, and that we believe our science is in the first stages of its scientific development."

Our attitude is a modest one, and must, I think, appeal to the best intelligence of the country. We acknowledge our ignorance, and if we claim superiority to others it is largely on the very humble ground that we know better what we do not know. We confess our ignorance, but are determined to do our best to remedy it, and we call upon those who are willing to go to work in this spirit to come forward and help us.

At the conclusion of the paper presented by Dr. Ely, the provisional platform and statement of objects were presented and discussed in detail, nearly all present taking part in the animated debate.

¹ It does not follow that the work of men like Adam Smith, Malthus and Ricardo was not valuable, nor that its conclusions were altogether erroneous. They and other thinkers of their day occupy a brilliant place in the history of political economy. The chief fault to be found with those who have attempted to build up a standard of orthodoxy on the basis afforded by these great thinkers is that they hinder progress, that they pervert the spirit of their masters, and fail to recognize that political economy must grow with the growth of society. A political economy written before the introduction of railroads can hardly be sufficient in the year 1885. Adam Smith would have been the first one to recognize this, and I think that the latest developments in economic science are in some respects a return to the spirit and methods of the "Wealth of Nations," as was suggested by Professor Henry C. Adams in the discussion of the "platform" at Saratoga.

DISCUSSION OF THE PLATFORM AT SARATOGA.

PROFESSOR HENRY C. ADAMS expressed himself as most heartily in favor of the purposes of the proposed association, and, so far as he was personally concerned, would be quite willing to undertake a defense of the statement of principles as presented. He thought, however, that it might be wise to modify them in one or two particulars; for they were too explicit to be held merely as general statements, while at the same time they did not say enough to guard against possible misapprehension. In two particulars was there danger of misunderstanding. In the first place, a formal denial of the claims of *laissez-faire* might be construed to mean the acceptance of what is popularly known as the German view of social relations. This, he thought, would be unfortunate, for it would not properly represent the opinions of some who were interested in the present movement. It may be admitted that the English political philosophy (or what goes by that name), which regards the state as a necessary evil, is untenable. The state is not an appendage to private action. But on the other hand, German political philosophy, which presents the state as the final analysis of human relations, is equally erroneous. The truth is, that society is the organic entity about which all reasoning should center, and both state action and the industrial activity of individuals are but functions of the organism, society. The great problem of the present day is properly to correlate public and private activity so as to preserve harmony and proportion between the various parts of organic society; and he believed that the path by which this purpose might be attained had been indicated by neither English nor German economists. In the second place, the speaker ventured the opinion that the Association would gain material strength by formally expressing its high appreciation of the work of former economists. This movement should be considered as a further development of the work which they so well began. The radical changes in society have forced new problems to

the front for study and solution, but the claim to be historical students would be forfeited, should even a suggestion of isolation make its appearance. Much is heard to-day among the philosophers of a return to Kant; current political economy needs nothing at present so much as a return to the spirit of Adam Smith.

PROFESSOR JOHNSTON, agreeing, in the main, with the propositions offered by the secretary, wished that their expression could be considerably modified. He apprehended that the words might seem to imply an absolute rejection of the work of the great thinkers upon economics. On the contrary, their work must stand, since it has not been successfully assailed. The definitions which they have thought out so laboriously and put into apt words as a basis for the work of future generations, we ought not even to seem to treat with disrespect. This is not a rebellion against Adam Smith, Malthus, Ricardo and Mill; only a struggle for freedom of development of their work. Bagehot speaks of the "crust" which grows up at some stages of human development, preventing any further advance. This is an effort to stop the formation of any "crust" on the development of economics, to assert the economic right of attempts to develop in every direction, unhampered by any accusation of heterodoxy, with the assurance that unlimited freedom of individual attempt to develop will bring about the truest, most natural and healthiest development. More stress ought to be laid on such expressions as those of Thorold Rogers, that the "new economy" is only Adam Smith with a frank recognition of the new conditions introduced by steam and electricity. He did not care to see any sweeping condemnation of the much-abused doctrine of *laissez-faire*, only an absolute restriction of it to its legitimate sphere, that of production and exchange, and a recognition of the legal right to limit its application even there. He would not care to live in a state of society in which the popular sense of reliance on the true principle of *laissez-faire* was dulled or destroyed. We ought to be care-

ful while fighting the illegitimate application of the doctrine to matters properly within the domain of morals or the state, not to seem to ask the total abolition of the legitimate principle, the secret of individualism, the basis of modern society. It is "an inadequate explanation of the relation between state and citizens," but not necessarily a false one in its place. He would like to see that brought out clearly in the platform, as he thought it was what the mass of those present meant and desired. Professor Johnston opposed the doctrine that the state has an "economic function," though freely admitting its importance in guarding interests of society more precious than any economic interests could be.

MR. VAN BUREN DENSLOW objected to the use of the word "Church" in the statement of principles, on the ground that it would prejudice the association; also, that there is no Church in this country, only a group of religious societies. He also objected to the statement that the state is an educational agency.

DR. ELY defended the proposition that the state is an educational agency. He thought that apart from its direct participation in the education of the young, all its institutions had an educational value, and contended that this was even true of a penal code, which assisted in the development of the ethical side of man's nature. No one thought of such a thing, it was urged, as a union of Church and state, which would commend itself, he was very sure, to no one present. The truth was simply emphasized, that the church has her own proper functions in society which cannot with impunity be neglected.

Dr. Ely also maintained that the proposed association ought in no sense to be regarded as a German movement, as some had intimated. Nothing about it was more marked than its American character. It had sprung up almost spontaneously in answer to felt needs. Doubtless many present had studied in Germany, and were grateful for what they had learned in the German universities; but nothing was more

foreign to their purposes than to import Germany into America.

DR. WASHINGTON GLADDEN said :—"It is true that there is no national Church in this country, and that the word is used here in many different senses. The denomination to which I belong is the most radical of all in its use of this term, and limits it to the local body of Christians. Nevertheless even among us the word is often used in its broadest sense to describe the whole body of Christian people. It might as truly be said that we 'have no 'State' in this country, because there are so many states. But we use that word also in its broader sense, as describing political society. Political society as such can help in solving these problems which have come to the front in these last days. The whole body of religious people in the country can also help in their solution. Without the intervention of the moral forces represented by the Church, these questions will never be answered. The Church is already taking hold of these matters with vigor, and there is no reason why this association should not recognize and welcome its co-operation."

PRESIDENT ANDREW D. WHITE expressed himself as ready to stand on the platform as presented. He was glad to see this movement and paid a high tribute to those present who were assisting in the establishment of the new society. He considered the return of "these young men from Germany" as of sufficient importance to constitute an epoch in American history. He was also glad to see it explicitly stated that the association did not design to become either a free-trade club or a protectionist club, as the fact needed to be emphasized, that political economy was something broader than controversies about the tariff. A prominent journal had ventured to express disapproval when, as President of Cornell University, he invited two gentlemen to present the two sides of this issue, it being implied that political economy was identical with one view of the subject. President White spoke of the total inadequacy of the so-called *laissez-faire* theory of politi-

cal economy, saying that in Europe it had entirely broken down.

PRESIDENT C. K. ADAMS followed with an expression of his understanding of the purposes of the association. He said that in signing the call he had understood that the design of the new organization was to promote the study of economic science from what may be called the historical point of view. He had the impression that the time had come to organize into an association all those who are ready to admit that it is impossible to formulate what there is of political economy into an economic code of universal application. He believed that economic science must be studied in the light of history, inasmuch as experience has shown that many of its doctrines must be regarded, not as truths of universal application, but simply as truths to be adapted to the changing conditions of human development. In the way of illustration, he called attention to the fact that the so-called doctrines of *laissez-faire* are now generally regarded by economists as of much less wide-spread application than was supposed by the economists of fifty or even twenty-five years ago. Thus the course of history has compelled economists to modify some of their beliefs, and, consequently, how far their beliefs are subject to still further modification is a legitimate subject of inquiry. Such inquiry he supposed to be one of the most prominent objects of the new organization.

PROFESSOR E. J. JAMES expressed himself as very much pleased with the hearty response to the proposal to organize an Economic Association which was indicated by the presence at this meeting of so many representative workers in the field of economics. It was a matter of surprise that there should be so much unanimity of sentiment among men who had never before had the opportunity of coming together to exchange opinions on questions which were the subject of so much dispute. It argued well for the future success of the association. He thought the proposed platform might well be modified in certain particulars, as the language might convey false impres-

sions as to the views of the men who were present. It should contain a hearty acknowledgment of the work done by the so-called orthodox school, and insist on the fact that the association proposed to work on the basis of whatever truth had been discovered and formulated by previous workers in this field, no matter to what school they belonged. It should, nowever, also contain a vigorous expression of the intention of the association to go forward in the investigation of economic truth as far as possible, without any of those prepossessions and limitations which are inevitably connected with the habit of regarding any past thinkers as having spoken the last word, even on the topics which they discovered. Our glance is toward the future and not toward the past. Our aim is to add to our positive knowledge of economic and social phenomena, and not merely to correct and restate the formulas of a past generation. We shall try to do for our day and generation what Adam Smith did for his.

On one point we certainly all differ from the general tone of Adam Smith and some of his so-called orthodox followers of the early half of this century, and that is as to his conception of the state. We do not regard it as a merely negative factor, the influence of which is most happy when it is smallest, but we recognize that some of the most necessary functions of a civilized society can be performed only by the state, and some others most efficiently by the state; that the state, in a word, is a permanent category of economic life, and not merely a temporary crutch which may be cast away when society becomes more perfect. This sentiment should find expression in the platform.

At the same time, we must guard against the idea that we are in favor of a continually growing interference of the state in social and economic life, no matter at what cost to the individual. We should give no justification for the charge that we are "state socialists" or "professorial socialists," as a group of German thinkers are so ridiculously called by their opponents. We should emphasize the fact that there is a

legitimate sphere of state activity and a legitimate sphere of individual activity. Neither should be allowed to encroach on the other, and it is one of our objects to determine, as far as is possible by impartial scientific investigation, the proper boundaries of each. It is possible that we might all agree to the statement of John Stuart Mill on this point, viz: "that the ends of government are as comprehensive as those of the social union. They include all the benefit and all the immunity from evil which government can be made to confer." Such a statement would leave the question of government interference to be decided in each case on its own merits, and not commit us either to an extension or a circumscribing of government activity. Let us, by all means, make the platform broad enough to include everybody who is willing to undertake, in a serious spirit and by a scientific method, the investigation of the great problems of our social, political and economic life.

DR. SELIGMAN feared that the statement of principles as originally drafted might create in some minds a misconception of the true object of the association. He believed, and thought that the majority of the members agreed with him in believing, that the reaction against the principle of free competition had perhaps been somewhat exaggerated by certain recent economists. Competition is not in itself bad. It is a neutral force which has already produced immense benefits, but which may, under certain conditions, bring in its train sharply defined evils. Modern economics has, however, not yet attained that certainty in results which would authorize us to invoke increased governmental action as a check to various abuses of free competition. He thought that care should be taken to preserve an impartial scientific attitude, and that the great aim of the association, as of all political economy, should be to investigate the actual facts of each particular question thoroughly, and without any prepossessions on the side of complete liberty, or of necessary restriction. He did not wish that any economist who worked in the true scientific

spirit should deem himself precluded from joining the association through fear of any imagined Katheder-Socialistic tendencies. He thought that there was much less difference between the followers of the historical school and the present moderate adherents of the orthodox school, than is generally imagined. He trusted that the work of the association would consist in formulating results after the field had been thoroughly canvassed, and not in positing preconceived conclusions which the facts might be chosen to illustrate.

PROFESSOR ANDREWS was happy to concur almost exactly with Dr. Seligman. He wished that the platform might be so framed as to exclude no earnest economist from the association. To this end he would be willing to omit the Statement of Principles, allowing the doctrine of the organization to fix and declare itself in its work. He had expected, in coming here, to find himself the most conservative economist present, and was not a little surprised to discover that, apparently, he was not so, some having spoken in opposition to the conception of the state as a factor in economic advance. He regarded the state as a condition not only of "human" progress, a proposition which, he thought, no one would dream of gainsaying, but also of economic progress. As to the work of the Church in the economic field, he agreed with Drs. Ely and Gladden. On the other hand, he was anxious that the value of economic discussion and development hitherto should be fully recognized. No impassable gulf separates Wagner, Roscher and Knies from Adam Smith, Mill and Ricardo, and he believed it a misfortune for young Americans to begin the study of those German authors without some previous acquaintance with the great English masters. He hoped it would be distinctly understood that the association has not committed itself to the doctrine of protection any more than to that of free-trade, and considered that there might be necessity of laying stress on this, as he had recently read a long article in a prominent Massachusetts newspaper prophesying with confidence that the association would be an ally of protection.

PROFESSOR J. B. CLARK spoke as follows :

“ Our discussion of the platform must proceed somewhat blindly unless we know at the outset what use we are to make of it. If it is a creed binding on the individual members, we must make it so highly conservative as to be comparatively meaningless. If, on the other hand, it is so to be used as to give a certain unity of purpose to the general work of the society, while not binding the individual member, then we may adopt the form presented to us by Dr. Ely, subject to minor changes. The point upon which individuals will be unable to unite is, especially, the strong condemnation of the *laissez-faire* doctrine. The first thing to be decided is, therefore, in what manner the platform is to be used.”

DR. H. B. ADAMS of the Johns Hopkins University suggested a way out of the difficulty which arose from the objection that the “ platform ” would be regarded as a creed binding upon members. He offered a resolution which, with slight modification, was finally printed as the present “ note ” appended to the “ Statement of Principles.”

It was finally decided to refer the platform to a committee of five, consisting of the chairman, the secretary, and three other gentlemen to be appointed by the chair. Messrs. Gladden, Johnston and Clark were subsequently appointed. The chair was also instructed to appoint a committee on organization, and subsequently appointed Messrs. James, H. B. Adams and E. B. Andrews. The meeting adjourned at six, to meet in the same place at four o'clock, Wednesday, September 9th.

THE SECOND SESSION.

SARATOGA, SEPTEMBER 9TH, 1885.

At four o'clock, Professor Henry C. Adams, acting as chairman, called the meeting to order. The first business before the meeting was the report of the committee on the objects of the association and the statement of principles.

The members of the committee concluded, as a result of the debate on the preceding day, that a simplification of the declaration of purposes was desired; also a positive rather than a negative statement in every practicable instance; finally, a modification of some of the views expressed in the "Platform." It was also felt that it was desirable to make it plain that it was not the intention of the founders of the association to formulate a creed which should restrict freedom of inquiry or independence of thought. The committee endeavored to attain this object by a note to that effect, to be appended to the statement of principles. The report, as submitted, was debated passage by passage, was slightly amended, and then accepted and became our present declaration of "Objects" and "Statement of Principles."

Dr. James, as chairman of the committee on organization, presented a plan of organization which was modified in a few particulars and then adopted.

Professor Henry C. Adams was then requested by vote of the society to act as chairman until his successor should be appointed, and Dr. R. T. Ely was requested, in like manner, to act as secretary and treasurer for the same period. The American Economic Association was then formally organized, and the 9th of September, 1885, must be considered as the day of its birth. The day following, the present officers were elected and the Economic Association adjourned *sine die*.

The plans of the association were committed to the executive committee for the coming year. In order to decide upon the line of work and to elaborate those details of organization which the council had intrusted to the members of this committee, two meetings of the officers of the association were held in one of the parlors of the United States Hotel, one on the 10th of September, and the other on the 11th. Various members of the committee and of the association were assigned to the different standing committees. A list of the committees and of those who constitute them may be found in the following pages. Several lines of investigation were suggested

by members of the executive committee. The place of the next annual meeting of the association was discussed, but no conclusion was reached. The fact was mentioned that several members in the West and South desired an earlier meeting that they might be able to attend in greater numbers;—the duties in the schools and colleges in those regions beginning early in September.

Since the adjournment, many favorable accounts of the American Economic Association and letters from persons distinguished in various walks of life have been received, in which the warmest approval of our aims has been expressed. Some may be glad to know that the late Dr. Elisha Mulford took a warm interest in our association. In a letter to the secretary he said:—"No recent invitation has given me more pleasure than yours to join the American Economic Association. I subscribe to its articles.¹

"It places us in the same plane with all the greater universities and with the age. In the transitions of thought, none has been more significant than the humanization of political economy. Now, as Mr. Toynbee says: 'the long controversy between the economists and human beings has ended in the conversion of the economists.'"

The Secretary was instructed to communicate to General Walker, who was unable to be present, the fact of his unanimous election to the presidency of the association. General Walker replied as follows:—"I cannot tell you how much I am gratified by the formation of the American Economic Association by men who believe that there is still work to be done in economics and who wish to take part in doing it; or how glad and proud I am to assume the high office to which my colleagues have raised me. Please to believe that I shall rejoice to labor at all times and in any way for the enlargement of the Association and for its increasing success and usefulness."

¹Those to which Dr. Mulford refers are the statements of the original platform.

The American Economic Association has already accomplished great good. It has stimulated thought in every quarter, has awakened new interest in economics, has brought kindred minds into fruitful contact, has aided students by advice and counsel through its Bureau of Information, and has even now begun to exercise a perceptible influence on public opinion. New names are continually being added to its lists of members, in many places a desire to organize branch or local societies is expressed, and there is every reason for us to look forward with confidence to a long and useful future for the AMERICAN ECONOMIC ASSOCIATION.

II.

CONSTITUTION

BY-LAWS AND RESOLUTIONS

OF THE

AMERICAN ECONOMIC ASSOCIATION.

CONSTITUTION.

ARTICLE I.

NAME.

This Society shall be known as the AMERICAN ECONOMIC ASSOCIATION.

ARTICLE II.

OBJECTS.

1. The encouragement of economic research.
2. The publication of economic monographs.
3. The encouragement of perfect freedom in all economic discussion.
4. The establishment of a Bureau of Information designed to aid members in their economic studies.

ARTICLE III.

STATEMENT OF PRINCIPLES.

1. We regard the state as an agency whose positive assistance is one of the indispensable conditions of human progress.
2. We believe that political economy as a science is still in an early stage of its development. While we appreciate the work of former economists, we look not so much to speculation as to the historical and statistical study of actual conditions of economic life for the satisfactory accomplishment of that development.

3. We hold that the conflict of labor and capital has brought into prominence a vast number of social problems, whose solution requires the united efforts, each in its own sphere, of the church, of the state, and of science.

4. In the study of the industrial and commercial policy of governments we take no partisan attitude. We believe in a progressive development of economic conditions, which must be met by a corresponding development of legislative policy.

Note.—This statement was proposed and accepted as a general indication of the views and the purposes of those who founded the American Economic Association, but is not to be regarded as binding upon individual members.

ARTICLE IV.

MEMBERSHIP.

Any person may become a member of this Association by paying three dollars, and after the first year may continue a member by paying an annual fee of three dollars. On payment of twenty-five dollars any person may become a life member, exempt from annual dues.

Note.—Each member shall be entitled to receive all reports and publications of the Association.

ARTICLE V.

OFFICERS.

The officers of the Society shall consist of a President, three Vice-Presidents, a Secretary, a Treasurer and a Council.

ARTICLE VI.

COUNCIL.

1. The Council shall consist of an indefinite number of members of the Society chosen, with the exception of the original members, for three years. It shall have power to fill all vacancies in its membership, and may add to its number.

2. It shall elect the President, Vice-Presidents, Secretary and Treasurer, which officers shall constitute an executive committee with such power as the Council may trust to it.

3. The Council shall organize itself into a number of standing committees upon the various lines of research undertaken. These committees shall prepare reports from time to time upon such subjects relating to their respective departments as they may select, or as may be referred to them by the Council. These reports shall be presented to the Council at its regular or special meetings and be open to discussion. All papers offered to the Society shall be referred to the appropriate committees before being read in the Council.

4. The Council shall have charge of the general interests of the Society, and shall have power to call meetings and to determine what reports, papers or discussions are to be printed, and may adopt any rules or regulations for the conduct of its business not inconsistent with this constitution.

ARTICLE VII.

AMENDMENTS.

Amendments, after having been approved by a majority of the Council, may be adopted by a majority vote of the members present at any regular meeting of the Association.

BY-LAWS.

I. The President of the Association, who shall be *ex-officio* a member of the Council, shall preside at all meetings of the Council and Association, and perform such other duties as may be assigned to him by the Council. In case of inability to perform his duties they shall devolve upon the Vice-Presidents in the order of their election, upon the Secretary

and the Treasurer, and upon the Chairmen of the Standing Committees, in the order in which the committees are mentioned in the list.

II. The Secretary shall keep the records of the Association and perform such other duties as the Council may assign to him.

III. The Treasurer shall receive and have the custody of the funds of the Association, subject to the rules of the Council.

IV. The following Standing Committees shall be organized:

- (1). On Labor.
- (2). On Transportation.
- (3). On Trade.
- (4). On Public Finance.
- (5). On Exchange.
- (6). On General Questions of Economic Theory.
- (7). On Statistics.

The Executive Committee may appoint such special committees as it may deem best.

V. At any meeting called by the general summons of the President, five members shall constitute a quorum.

VI. Papers offered for the consideration of the Council shall be referred by the Secretary, each to its appropriate committee.

VII. In order to encourage economic research, the Association proposes to render pecuniary assistance in the prosecution of the same, and to offer prizes for the best monographs upon selected topics. It stands ready to accept and administer any fund placed at its disposal for either purpose.

VIII. The Executive Committee shall have power at any time to add new members to the Council.

IX. The executive Committee shall assign all members of the Council to one of the Standing Committees, and shall appoint the chairmen of the committees.

X. It shall be the duty of the Chairmen of the respective committees to organize and direct the work of the same, under the general control of the Council.

RESOLUTIONS.

I. The Executive Committee is authorized to take, during the coming year, any action not inconsistent with the rules of the Council, which may be deemed necessary to further the interests of the Association.

II. The following topics are suggested to the Chairmen of the Standing Committees, as proper subjects for reports :

- (1). Effect of Half-Time Working on the Laborer.
- (2). The Normal Working Day.
- (3). Employment of Women in Factories.
- (4). Municipal Finance.
- (5). The Income from Public Works in Cities.
- (6). Rent in the United States.
- (7). National Rail-Road Commission.
- (8). Limitation of Suffrage as a Remedy for Abuses in Local Administration.
- (9). Effect of Transportation on the Laborer.
- (10). The Silver Question.

III. The Secretary shall prepare a special copy of the Constitution, By-Laws and Resolutions, together with a brief account of the organization of the Association, which, upon being approved by the Executive Committee, shall be printed, together with a list of members. This report shall be sent to all members of the Association, and to such other persons as the Executive Committee shall deem advisable, with the invitation to become members.

IV. The Executive Committee shall determine the time and place of meeting.

V. During the year ending September 1st, 1886, the Executive Committee may order, by unanimous vote, the publication of any papers or reports which they shall judge calculated to further the purposes of the Association, and may draw upon

the Treasurer for the required funds, provided that no debt be contracted.

VI. The Executive Committee shall procure Articles of Incorporation for the Association and Council.

OFFICERS.

President, FRANCIS A. WALKER, LL. D.,
Massachusetts Institute of Technology.

First Vice President, HENRY C. ADAMS, Ph. D.,
University of Michigan and Cornell University.

Second Vice President, EDMUND J. JAMES, Ph. D.,
University of Pennsylvania.

Third Vice President, JOHN B. CLARK, A. M.,
Smith College.

Secretary, RICHARD T. ELY, Ph. D.,
Johns Hopkins University; address Johns Hopkins
University, Baltimore, Md.

Treasurer, EDWIN R. A. SELIGMAN, Ph. D.,
Columbia College; address 26 West 34th Street,
New York.

COUNCIL.

Term of office expires in 1886.

Professor E. BENJAMIN ANDREWS, Brown University.

Professor ARTHUR YAGER, Georgetown, Ky.

Professor WOODROW WILSON, Bryn Mawr.

Rev. Dr. LYMAN ABBOTT, *Christian Union*.

Professor G. B. NEWCOMB, College of City of New York.

Dr. EDWIN R. A. SELIGMAN, Columbia College.

Professor GEORGE KNIGHT, State University, Columbus, Ohio.

Mr. DAVIS R. DEWEY, Fellow Johns Hopkins University.

Term of office expires in 1887.

Rev. Dr. WASHINGTON GLADDEN, Columbus, Ohio.
Professor JOHN B. CLARK, Smith College.
Professor HENRY C. ADAMS, Michigan and Cornell Universities.
Professor KATHARINE COMAN, Wellesley College.
Hon. CARROLL D. WRIGHT, Commissioner of Labor, United States Bureau.
Rev. Dr. G. M. STEELE, Principal of Wesleyan Academy, Wilbraham, Mass.
Professor JAMES H. CANFIELD, University of Kansas.
Professor A. D. MORSE, Amherst College.

Term of office expires in 1888.

Professor ALEXANDER JOHNSTON, College of New Jersey, Princeton.
Dr. RICHARD T. ELY, Johns Hopkins University.
Professor E. J. JAMES, University of Pennsylvania, Philadelphia.
Hon. EUGENE SCHUYLER, Washington, D. C.
Professor JESSE MACY, Iowa College, Grinnell.
President C. K. ADAMS, Cornell University.
Dr. ALBERT SHAW, *Minneapolis Tribune*.
Professor RICHMOND M. SMITH, Columbia College.

STANDING COMMITTEES.

On Labor.

Dr. RICHARD T. ELY, Chairman.
Hon. CARROLL D. WRIGHT,
Dr. E. R. A. SELIGMAN,
Professor KATHERINE COMAN,
Dr. ALBERT SHAW.

On Transportation.

Professor E. J. JAMES, Chairman.
Professor RICHMOND M. SMITH,
Rev. Dr. LYMAN ABBOTT.

On Trade.

Professor JAMES H. CANFIELD, Chairman.
Professor JESSE MACY,
Dr. ALBERT SHAW,
Professor W. W. FOLWELL.

On Public Finance.

Professor HENRY C. ADAMS, Chairman.
 Professor ARTHUR YAGER,
 Professor GEORGE W. KNIGHT,
 Mr. DAVIS R. DEWEY.

On Exchange.

Professor E. B. ANDREWS, Chairman.
 Mr. DAVIS R. DEWEY.

On Questions of Economic Theory.

Professor J. B. CLARK, Chairman.
 Professor A. D. MORSE,
 Dr. SIMON N. PATTEN,
 Rev. Dr. G. M. STEELE,
 Professor G. B. NEWCOMB.

On Statistics.

Hon. CARROLL D. WRIGHT, Chairman.
 Hon. EUGENE SCHUYLER,
 Professor RICHMOND M. SMITH.

OFFICERS OF THE CONNECTICUT VALLEY BRANCH.¹

Professor J. B. CLARK, *President*,
 Smith College, Northampton, Massachusetts.

Dr. C. S. WALKER, *First Vice-President*,
 Amherst, Massachusetts.

S. B. GRIFFEN, Esq., *Second Vice-President*,
 Springfield Republican, Springfield, Massachusetts.

Dr. EDWARD W. BEMIS, *Secretary*,
 35 Morgan Street, Springfield, Massachusetts.

D. P. CROCKER, Esq., *Treasurer*,
 133 Mulberry Street, Springfield, Massachusetts.

Members of the Council in addition to the above:

W. B. STONE, Esq.

F. H. GIDDINGS, Editor of the *Springfield Union*.

¹ Those members living in Springfield, Mass., and vicinity have formed a branch association, called the Connecticut Valley Branch of the American Economic Association.

LIST OF MEMBERS
OF THE
AMERICAN ECONOMIC ASSOCIATION.

*Life Members.

- ABBOTT, Rev. Dr. LYMAN, Editor of the *Christian Union*, 20 Lafayette Place, New York City.
- ADAMS, CHARLES FREDERICK, Esq., United States Civil Service Commission, Washington, D. C.
- ADAMS, CHARLES KENDALL, President of Cornell University, Ithaca, N. Y.
- ADAMS, Professor HENRY C., Michigan University, Ann Arbor, Mich.
- ADAMS, Professor HERBERT B., Johns Hopkins University, Baltimore, Md.
- AMMIDOWN, EDWARD H., Esq., 27 West 42nd street, New York City.
- ANDREWS, Professor E. B., Brown University, Providence, R. I.
- ATHERTON, G. W., President State College, Center Co., Pa.
- AYRES, PHILIP W., Esq., Johns Hopkins University, Baltimore, Md.
- BAKER, O. M., Esq., Springfield, Mass.
- BALCH, THOMAS W., Esq., 1412 Spruce street, Philadelphia, Pa.
- BALDWIN, Rev. GEORGE C., Springfield, Mass.
- BALLARD, THOMAS P., Esq., 41 South Night street, Columbus, O.
- BALLOX, Dr. NAHUM E., Sandwich, Ill.
- BARNETT, JAMES E., Esq., Washington, Washington Co., Pa.
- BARNS, W. E., Editor *Age of Steel*, St. Louis, Mo.
- BARROWS, CHARLES H., Esq., Springfield, Mass.
- BARROWS, Rev. JOHN H., D. D., First Presbyterian Church, Indiana avenue, and 20th street, Chicago, Ill.
- BEALS, E. A., Esq., Springfield, Mass.
- BEMIS, Dr. EDWARD W., 35 Morgan street, Springfield, Mass.
- BENHAM, GEORGE, Esq., President Norwalk Economic Club, Norwalk, O.
- BILL, CHARLES, Esq., Springfield, Mass.
- BILL, J. A., Jr., Esq., Springfield, Mass.
- BLAIR, THOMAS S., Esq., Huntingdon Furnace, Spruce Creek P. O., Pa.
- BOLLES, Professor A. S., University of Pennsylvania, Philadelphia, Pa.
- BOND, Mrs. MARY W., Florence, Mass.
- BOUCHER, W. M., Esq., 28 Waverly Place, New York City.
- BOWEN, CLARENCE W., Esq. (*The Independent*), 251 Broadway, New York City.
- BRADFORD, Rev. AMORY H., Montclair, N. J.
- BREWER, Dr. C. D., Springfield, Mass.
- BRITTON, JOHN W., Esq., 15 West 16th street, New York City.
- BRONHAM, MICHAEL, Esq., Springfield, Mass.
- BROOKS, Rev. J. C., Springfield, Mass.
- BROOKS, JOHN W., Esq., Berkely street, Cambridge, Mass.
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- CANFIELD, Professor JAMES H., University of Kansas, Lawrence, Kan.
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- CLAFLIN, WILLIAM, Esq., Boston, Mass.
- CLARK, Professor J. B., Smith College, Northampton, Mass.
- CLARK, MERRITT, Esq., Northampton, Mass.
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- COMAN, Professor KATHARINE, Wellesley College, Wellesley, Mass.
- COPELAND, Judge A. M., Springfield, Mass.
- CONDIT, CHARLES L., Esq., Publisher of *Science*, Station D., New York City.
- COOKE, ROBERT G., Esq., Bethlehem, Pa.
- COOPER, Professor Charles H., Carleton College, Northfield, Minn.
- CROCKER, D. P., Esq., Springfield, Mass.
- CUCKSON, JOHN, Esq., Springfield, Mass.
- DAVIDSON, THOMAS, Esq., Orange, N. J.
- DENNISON, GEORGE A., Esq., Springfield, Mass.
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- DOUGHERTY, WILLIAM H., Esq., 1136 N street, Philadelphia, Pa.
- DUNLOP, JOHN, Esq., 314 East Main street, Richmond, Va.
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- ELKINS, S. B., Esq., 46 West 58th street, New York City.
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- ELY, Hon. GEORGE H., Mercantile Park Building, Cleveland, O.
- ELY, JOSEPH C., Esq., Franklin House, Providence, R. I.
- ELY, Professor RICHARD T., Johns Hopkins University, Baltimore, Md.
- FALES, Mrs. IMOGENE C., 52 7th avenue, Brooklyn, N. Y.
- FAUNCE, Rev. W. H. P., Springfield, Mass.
- FOLWELL, Professor W. W., University of Minnesota, Minneapolis, Minn.
- FROTHINGHAM, ARTHUR L., Esq., 29 Cathedral st., Baltimore, Md.
- GARDNER, H. B., Esq., Johns Hopkins University, Baltimore, Md.
- GIDDINGS, F. H., Esq., Editor of the *Springfield Union*, Springfield, Mass.
- GILLETT, F. H., Esq., Springfield, Mass.
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THE RELATION
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GAS SUPPLY.

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The Relation of the Modern Municipality to the Gas Supply.

One of the most interesting phenomena connected with our modern political development in general, is the slowly but ever-changing attitude of the government toward the industry of society. When Adam Smith published his immortal work on the *Wealth of Nations*, a little more than a hundred years ago, the industry of the world was bound about by a set of governmental restrictions which were slowly but surely crushing out the life which they were intended to nourish and regulate. Laws and regulations which, in their inception had, perhaps, been fully justifiable, had so far outlived their usefulness, that they were doing enormous harm and injury by their continuance. It was the great and imperishable service of Smith that he sounded the war cry of death to these old obstructions which formed an impassable barrier to future industrial progress, and secured to the immediately following and to all future generations the great advantage of an enormously increased production.

But, like all great revolutions, this movement also rushed into an untenable extreme.

The argument of Smith for a greater freedom from the governmental restrictions of his time—unanswerable as against certain abuses which he had in mind—was used by his successors to prove that government could best protect the interests of society by a policy of do-nothingism. This purely negative theory of government functions became at one time so

prevalent, that it led our modern governments to adopt what relatively speaking, may be called a system of *laissez-faire*—of letting everything take care of itself, which has resulted disastrously in a thousand ways. Under the immense impetus of new discoveries in industrial processes and of relative freedom of action, so far as the restraining influence of government is concerned, private enterprise went forth into every field. Not content with developing new wealth by which it should be enriched, it sought out and set in order many ways of establishing artificial monopolies by which it might absorb a large portion of existing wealth. So successfully has this system been followed, that the great problem before the modern world is again the same which presented itself to the mind and times of Adam Smith, viz.: How shall we set our industry free from the bonds which bind and cramp it—only in our time the bonds are those which have been made and applied, and are all the while being drawn more tightly by private enterprise and ingenuity, while in Smith's time they were the bonds of government interference and restriction. Smith called upon private enterprise to check and circumscribe government activity; we are forced to call upon government to circumscribe and regulate private enterprise.

Our railroads, our telegraphs, our express companies, our telephone companies, our oil companies, our coal companies, our gas and water companies, all taking their start under the domain of free competition, and growing into strength and vigor under its influence, have come to rely for their prosperity and increased earnings not only on the actual increment of wealth which they contribute to the world's stock but also on the absorption of a larger part of existing wealth by means of artificial monopolies, a state of things which will continually grow worse unless it be made to grow better.

The remedies proposed for this disease, have been legion in number and infinitely various in character. The one which is most popular with a certain class of extreme optimists and also with their near connections, the extreme pessimists, is

that of letting everything alone. The disease is bound to grow worse and worse until the crisis is reached, after which it will take care of itself, and all will go well—say the optimists. They refuse to look the possibility in the face, that the patient may die, or if he recover, may carry about with him for an indefinite period the evidences of his disease in an impaired constitution or permanent deformity. The pessimist says, "Let him die. It is all one."

Another remedy which is the favorite proposal of another class of extremists, is to hand over everything to the management of government. When the agent of society, say this class, manages these and similar undertakings, they will be administered in the interests of the whole as opposed to those of a part of society, and in this way the problem will solve itself.

With neither of these classes do I sympathize. Improvement in government and society rarely comes about of itself, any more than improvement in the individual or the type. Human progress depends largely on conscious human effort, put forth in accordance with a conscious purpose. On the other hand we can not find any panacea for our social evils. The results of handing everything over to government are ruinous. The results of remanding everything to private enterprise are equally ruinous. The proper place to draw the line can not be ascertained by any general rule now within our knowledge. We must investigate each case on its own merit. I wish, in this paper, to take up one of the most important questions relating to municipal government, now before the public, viz.: The relation of the modern municipality to the gas supply.

I shall first touch upon the relation of gas to the needs of modern society, then notice briefly the peculiar nature of the gas business, and draw the plain inference in regard to its relations to city governments. I shall then take up the question of the relative merits of public and private management in general, and close with a discussion of the concrete question now before our American cities.

A very superficial consideration of the case will, I am sure, be sufficient to convince anyone that an ample supply of pure and strong gas at low prices has become an absolute necessity of every modern city. The idea of a necessity of life, it is true, is a purely relative one, and can not therefore be made the subject of an absolute definition like a mathematical concept. Our notion of what is indispensable to our lives changes from time to time. But we may almost measure the progress of civilization itself by the increase in the number of those things which have become absolutely necessary to our daily existence and comfort. It has not been so very long since soap was ranked as a luxury, and it is within the memory of men now living, that matches have gone from the category of luxuries to that of necessities. Railways afford an excellent example of an institution which, though almost unknown fifty years ago, have become an absolute necessity in the present state of our society. The general introduction of them has enabled the population to increase so rapidly and industry so to distribute itself that if they were to become useless a great reduction either in the population or the standard of life, or both, would inevitably follow. So it is to a less extent with the manufacture of gas. It has become as necessary to our artificial mode of living as bread and water. Any great interference with its production would as surely bring with it a marked disturbance of many of our business and social relations as a diminution in the supply of our breadstuffs; though, of course, it might not have such serious results. Any failure to develop the industry constitutes, therefore, a serious hindrance to the increase of comfort and business. It means that we must live on a lower level of material prosperity than that to which we might attain if we would use the means within our power.

As a means of illumination gas is, of course, practically indispensable. The introduction of gas into the dwelling-houses of our modern cities has diminished in a very perceptible degree the labor of lighting the house, and is, from

this point of view, a great labor-saving device. The end and aim of social reforms in this direction should be to secure such low prices of gas as would enable even the poorest householder to dispense with the crude and time-devouring system of lamp illumination. The use of gas as a means of illuminating places of manufacturing and business is, of course, an absolute necessity. The labor-saving element is so evident in this case, that no city could think of going back to the old system unless it had become reconciled to the thought of giving up the attempt to keep pace with the advance of its sister cities. It is said that one gas light is equal to one policeman in the protection of life and property. It is very certain that our large cities could not be rendered safe at night at all in many parts, without the use of an extended system of artificial lighting. The question as to whether electric light might not better replace the use of gas for this purpose will be noticed further on in the paper. Certain it is that for the present we must depend on gas very largely for this purpose, as is proved by the fact that even where the conditions are most favorable for the electric light, gas is still used on a very large scale, and that, too, at the exorbitant price which is demanded for gas in most of our American cities. The need of artificial light for the successful carrying on of many kinds of business, for social purposes and family use is so patent that it is not necessary to dwell further upon that phase of the subject. 7

Gas is coming more and more into use as a means of cooking, and driving machinery. There is probably no department of household expenses in which there is uniformly more waste than in that of the fuel supply. In our best ranges the loss of unutilized heat is enormous, even where the coal is fully consumed. Tests made by Dr. Fischer, the well-known German chemist, show that in ordinary domestic stoves in use in Germany, not more than twenty per cent. of the fuel consumed is really utilized for heating purposes, while in stoves consuming gas, eighty per cent. and more, of the possible effect may be utilized. It is asserted that less than ten

per cent. of the heating power of fuel consumed is utilized in our best American stoves, while more than ninety-seven per cent. is wasted in the ordinary open fire.

But one need only to examine the ash heaps, where the refuse of the ranges is deposited, in order to see that nearly as much again is wasted, owing to the incomplete combustion of the coal. The same thing is true of our heaters, perhaps in a larger degree than even of our ranges. In addition to this waste we must count the use of wood for kindling purposes which is a very large item indeed in the course of a year. To all this must be added the large expenditure of labor in getting the coal to the houses and the ashes away, to say nothing of the constant labor involved in caring for the heaters and ranges. Now a large proportion of all this waste could be saved, if we would take to the use of gas as the ordinary means of cooking, and heating our houses. There is, at present, nothing in the way of this except custom and the high price of gas—a price which could be easily reduced to one-third of that at which it is at present sold in most American cities if the consumption would increase to the requisite extent. If gas were thus reduced in price it would come within the reach of small manufacturing establishments as a motor power in the driving of machinery. This would redound to the benefit of society in a thousand ways. It would enable it to do away with some of the most burdensome forms of physical labor. It would reduce the cost of production of many articles to the advantage of the consumer. As a matter of fact, some cities of the world have furnished gas at such low rates for this purpose that it has become the decisive element in the ability of the citizens to compete with their rivals in other cities and countries.

We talk about protecting a home-producer by a protective tariff, and insist on high duties, when the most sensible course, oftentimes, would be to take such measures as would place the home-producer on a level with his foreign competitor by placing within his reach the productive opportunities which are at our disposal.

As an evidence of the great importance of gas in the business of manufacturing, the following testimony is valuable: Mr. J. Somerville, in an essay on the utilization of gaseous fuel, which received a prize from the North British Association of Gas Managers, states that the general use of gas and coke in the department of iron-making and steel-making has diminished the consumption of fuel by four-fifths in this century in those branches of manufacturing. To Siemens is due the perfecting of a system whereby iron, steel, glass, porcelain, etc., *i. e.*, any material needing to be fused, softened or baked at high or regular heats, may be so treated by gasified fuel, not only without any smoke, but with greater economy than by any other means. There is scarcely any industrial application of heat for which gas of one or another of the various classes is not better fitted than any form of solid fuel; and where gas fails to recommend itself, coke is always an available alternative.

The use of gas engines instead of steam engines, wherever a low horse-power is required, is on the increase, as being much cheaper where gas is sold at a reasonable price, and much safer everywhere.

The *Scientific Press* of August, 1883, says that the demand for the lighter class of steam engines is rapidly declining. This fall-off is due to the increased demand for gas engines of small capacity. Sir Frederick Bramwell, one of the most eminent of English engineers, thinks that the stationary steam engine of medium or low power will ere long be entirely superseded by the gas engine.

In a certain sugar refinery in Elsdorf, Germany, no steam engines have been used for years. Gas is manufactured for twenty cents per thousand feet, and is used for driving the engines and lighting the works. In the great ironworks of Schultz, in Essen, gas is manufactured at a cost of 8-16 pfennings, and serves both for fire and lighting. For the latter purpose rings are fixed over the burners, having rods or pencils of magnesia, which emit light on being heated by the burning gas.

The consumption of coal-gas in Great Britain for other purposes than lighting amounts, at present, to only about six per cent. of the whole output; but, in the better managed works, it averages more than fourteen per cent., and, as an instance of what can be done in this way by the best management, the case of the Borough of Northampton, England, may be cited, where over forty per cent. of the total amount used is consumed for other than lighting purposes. The proportion of gas consumed in cooking and driving machinery will probably continue to increase and will rise with every reduction in price of gas. This question is just now of special importance from a politico-economic point of view. One of the most marked results of our modern industrial economy is the rapid growth of large businesses. No one thing has contributed more to build up the large and drive out the small man than the general introduction of the steam engine as the motive power to drive machinery. This can only be profitable to those who have considerable capital, so that the power of labor has tended steadily to decline as compared with that of capital. The general introduction of a cheap motive power would be no inconsiderable aid in restoring that class of small manufacturers who have been driven to the wall by the competition of large capital and cheap power, *i.e.*, power which is cheap to those who have large capital. The gas engine promises to afford this cheap power to the small producer, if its price and that of gas be brought within a reasonable figure.

There is still another very important aspect of this question and that is its bearing on the health of communities. In those places where bituminous coal is largely used, and even in those where anthracite is chiefly consumed, the smoke-nuisance is getting to be a very serious one. The worst evils of this system are naturally seen in England, where a dense population and a damp climate make the results more noticeable. An association has been formed to agitate for an act of Parliament compelling the manufacturers to turn their coal

into gas before using it in the works, owing to the serious evils from the clouds of smoke which their countless chimneys belch forth. The evils of this nuisance are summarized in a clear way by Mr. W. R. E. Coles in an address before the annual meeting of the Sanitary Institute at Leicester in 1885. It is becoming intolerable from several aspects—sanitary, moral and economic. The death-rate of smoky atmospheres is considerably higher than that of others. Diseases of the respiratory organs and of the zymotic class are alike more deadly. The evidence on this point is absolutely without conflict of opinion. Physicians and physiologists agree in their testimony. The smoke obscures the light and we are thus deprived of one of the prime conditions of healthy animal life. Sunlight is as necessary as food. The moral aspect is quite as important. Those who are most active in ameliorating the condition of the poorer classes are urgent in their desire to see smoke abated. Intemperance follows as the almost natural consequence of lowered vitality and debased surroundings. To the poorer classes the abatement of the smoke-nuisance is of greater importance than to any other class. Their houses are for the most part in the least ventilated and most smoky districts. They are less able than other persons to get away to fresher air and purer surroundings. To them the expense and labor of keeping themselves and their homes clean are things of vital importance. To war successfully against dirt is practically impossible for the poor while they have to live in an atmosphere of smoke. There is usually but one poor pair of hands to do all the work and those the overwrought ones of a sickly woman whose first care must be to attend to the immediate wants of the husband and the infant family. To the cotter's wife in the country it is hard enough to keep her house, herself and her children clean. To the laborer's wife in one of our smoky towns, where everything is soon covered with smut which falls so fast as to blacken the clothes even while the poor woman is trying to dry them, it is practically but a mockery to tell her

to be clean and that she ought to keep herself and her family decent. It is unnecessary to dwell upon this theme. All who have considered the subject and know anything of the poorer classes will admit the great practical difficulties which stand in the way of their becoming more temperate, more cleanly, more elevated in their habits, while smoke and dirt abound, and the smoke-cloud obscures those rays of the sun which have the power of regenerating the moral as well as the physical life of man. It may be added that the smoky condition of town atmosphere is one of the chief reasons of people living out of town and thus necessarily withdrawing to a great degree their active sympathy and various social influences for good from their poorer brethren who are compelled to remain continually in town. The sheer exhaustion and inability to work which is often experienced by the poorer classes is largely due to the enervating influences of smoky atmospheres. The economic aspect is also worthy of notice. Money loss is always associated with heating-systems or firing-systems which are accompanied with the production of smoke. The public pay an enormous tax in the aggregate whether participating in the waste or not. The mere waste of fuel means a higher price for every ton of coal purchased by each consumer. The aggregate loss in wasted fuel, wasted labor, cost of carrying fuel and ashes, cleaning up deteriorated articles and in loss of heat is simply enormous. The effect of the smoky atmosphere is strikingly attested by the movement of industries in London. The last wax bleaching factory has disappeared, driven out by the increasing deterioration of the atmosphere. Thirty years ago roses were a prominent feature of Kensington gardens. They cannot be grown there now, while the last conifer died three years ago—killed, in the opinion of experts, by the bad air due to smoke.

The condition of things is, perhaps, so bad as this only in a few places in this country, but it is getting worse from year to year. A writer in the *American Journal of Gas-Lighting* says of New England, in a recent number, that "the smoke

evil grows apace with us. Bituminous coal is replacing anthracite and some of our towns are now in a condition to dispute the question of supremacy in the matter of sombre cloudiness with the honorable ancient smoky hollows of Old England. The removal of this evil cannot be hoped for until gas generally replaces coal as the means of heating and manufacturing. How soon this may be done is chiefly a question of the cheap production of gas."

In a word, then, gas has become indispensable to the comfort of the home, the health of the community and the efficiency of trade and industry. Its uses are almost infinite, and its application becomes more general in proportion to the reduction of the price. That country and that city which provides for a liberal supply of it at low prices may add enormously to their means of comfort, to the economy of the fuel supply, and to their power to compete with commercial and industrial rivals, and, conversely, the country and city which fail to do this must surely fall behind in this race for industrial supremacy or even in the attempt to hold their own.

Another fact is also evident to the most superficial observer, and that is, that the gas business must, from its very nature, be a practical monopoly. This might be inferred from a simple consideration of the technical and administrative conditions of the manufacture and distribution of gas. It is also amply proven by the actual history of gas undertakings, both in this country and Europe.

In the first place, in order to undertake the gas business with a reasonable hope of profit, it is necessary to be able to control a large amount of capital. It is impossible, therefore, for a man of small means to start such an enterprise. It is ordinarily beyond the resources even of wealthy private men and it is usual to resort to the device of a joint-stock company. This simple fact, that it takes a large capital to undertake the business, practically limits it to a very few men and tends to make it a monopoly in the hands of a company which has once fairly established itself, since the risks of going into it when a

rival company has the field pre-empted and is better able to make prices which will drive the new company out of the field, are usually prohibitive of the enterprise.

In the second place, the gas business differs from such a business as the manufacture of shoes, for example, in that while it makes comparatively little difference where the shoes are manufactured since they can be easily sent to any desired point for consumption, the gas must be made near to the place of consumption. The opportunities for competition are thus enormously diminished in the latter business as compared with the former. If gas could be produced anywhere and bottled for consumption at distant places, the whole nature of the business would be changed and it would be much more difficult to establish a monopoly than at present. There is another point in which it differs greatly from such a branch of manufacturing as shoemaking which renders it easier to establish a monopoly, and that is that the process of manufacture produces a large number of most offensive odors, which almost constitute it a nuisance. It could not be allowed that every man who pleased should set up a gas factory on every street corner, even if other preliminaries of the business allowed it.

There is a third important peculiarity of the gas industry which contributes greatly toward making it a practical monopoly. This consists in its mode of distribution. In order to get to the consumers, it must use the public thoroughfare in such a way as to constitute a serious impediment to business. This would be very evident, if it put its main pipes above ground in such a way that bridges would have to be built over them at every street crossing. It is scarcely less evident under the present system, which involves taking possession of the streets for a longer or shorter time, first to lay the pipes, and later in order to make repairs. The existence of the mains in the ground even after they are laid, constitutes a serious inconvenience, as is plain whenever a sewer is to be constructed or whenever an explosion occurs, as a result of the leaking of a main. Now, while we might

allow almost any number of shoe dealers' wagons to travel along the streets, it is perfectly evident that we cannot allow an indefinitely large number of gas companies to be tearing up the streets in order to lay or repair their pipes. The ravages of one company and that of a public one are ordinarily enough to drive citizens almost distracted, to say nothing of the state of things which exists where there are from two to six competing with one another as to which shall make the greatest nuisance of itself.

This last consideration, which one would think important enough of itself to decide this question, was noticed as long ago as 1822 in England in which year a Parliamentary Commission reported against the advisability of giving a concession to rival companies in the same district.

Mr. William Richards, in his excellent work on the manufacture and distribution of coal-gas, gives a short account of competition in England as a means of regulating gas prices, which is full of instruction for us on this point :

“The two or three first acts passed by Parliament in regard to gas companies authorized different companies to supply the same districts throughout the metropolis, and for a time opposition existed between the Chartered, the Imperial, and the City of London Companies in a portion of their districts. The attention of Parliament was, however, called at a very early period to the evils arising from this competition ; and Sir William Congreve, who was inspector of gas works, on reporting to the House on the matter, expressed the strongest disapprobation of it and recommended that no act should be passed without limiting the district of each company ; consequently, in all acts passed during several years, each of the companies was limited to a certain district under a heavy penalty for every light supplied beyond it.

“Other companies were, however, formed without statutory powers for supplying the metropolis, and in 1842 the principle which had been adopted in 1821 for preventing competition among the gas companies was abandoned, and an act was

passed authorizing a comparatively new enterprise to supply districts already lighted by other companies, and closely following upon that were four or five other acts upon the same principle, thus strengthening the competition which had existed for years in certain parts of the metropolis, and bringing on a state of affairs which can not be too strongly condemned.

“The competing companies laid their mains in all the leading thoroughfares where there was a large consumption; hence, in some streets there were as many as six mains, and Oxford street was supplied from six different works. This state of affairs led to the greatest disorder, and in some instances, whether accidentally or by design, the main of one company was connected with that of another, and by the frequent changes of supply the wrong service would be at times connected so that one company supplied the gas while another collected the payments. It was not an uncommon occurrence for a consumer on entering a house where there were three or more services, to state to the inspector of each company, in turn, that he had arranged to take the supply from the other company, and so kept out of the books of all the companies, and had his gas for nothing, which deception was favored through the secrecy observed by the various competing companies.

“This competition of companies made them reckless of their respective interests. Canvassers were employed not only to get new customers, but also to induce customers to change their supply to the company represented by the canvasser; and the most extravagant offers were made, which consumers did not fail to take advantage of. Sometimes the company, in case of a large consumer, would refit the house and keep the fittings in repair. In other cases two or more burners were allowed on the premises without passing through the meter, and were, of course, not paid for; or in the event of the nominal standard price being charged according to mutual agreement with the companies, a large discount was allowed on payment in order to disguise the bargain.

“Many consumers having driven a hard bargain with the company in the first instance, would report that more favorable conditions had been offered by a rival company and give notice of a change, when that supplying, rather than lose the customer, would consent to the same terms, and thus by the secrecy referred to, observed by the various enterprises, they were imposed on in every way by the unscrupulous portion of the consumers. Moreover, at one time no uniformity whatever existed in the charges, and premises were frequently lighted at one-sixth part of the value of the gas which they consumed; the rule was, ‘Take what you can get and get what you can, but don’t lose the customer.’

“The loss by leakage was also large, which frequently occurred in consequence of the imperfect manner in which mains were laid, and the repeated changes of service. Whenever the mains of two or three companies existed in the same street, instead of the companies’ officers co-operating with the view of detecting and remedying the escape, it was disregarded until the public authorities had to interfere and insist on the nuisance being abated; hence, it was not surprising that accidents sometimes happened.

“Although a few consumers profited by this discreditable state of affairs, it was by no means advantageous to the general public and was ruinous to the gas companies, two of which, at least during several years, never paid a shilling of dividend to their shareholders, whilst the profits of the old companies were materially reduced. From these statements a faint idea of the evils of competition among gas companies may be formed; but it did not cease here, as by the multiplicity of mains a large amount of capital was literally thrown away, upon which the public are now paying dividends. In addition to this, there was the frequent breaking up of the streets and stoppage of the thoroughfares for laying or altering the mains and services, or transferring the supply from one company to another, which at one time caused a universal outcry throughout the metropolis; and on account of these

proceedings the public mind was for a period kept in a constant state of irritation by the press, all of which proceeded from the encouragement that had been given to competition by the public.

“The result of all these difficulties was that the companies agreed among themselves to cease all competition, to confine their operations to separate districts without interfering with each other; to discontinue all special arrangements and charge one uniform price over all parts of their respective districts. These proceedings caused in some instances an increased charge of from fifty to twenty-five per cent. and gave rise to considerable agitation in the metropolis; public meetings were held and resolutions were passed to petition Parliament for an inquiry, which was eventually granted. At that inquiry the public and the companies were both represented, and after a careful investigation of all the circumstances the districting arrangements were confirmed and the companies secured in their respective districts, and all other companies or persons were prohibited from supplying gas without first obtaining the sanction of Parliament; and a public act was passed embodying these provisions, although at the time the companies considered that they were subjected to some very arbitrary regulations.”

Simultaneously with this process of formally dividing the public among them as, so to speak, lawful prey, a process of absorption was begun. In 1853, when the companies agreed to quit competing, there were some thirteen companies within the city of London. By 1860, when Parliament finally acknowledged that competition was out of place between gas companies, the number had been considerably diminished, and by 1883 the number had dwindled to three, and it is now, or shortly will be, reduced to two and perhaps to one.

Much the same course of events took place in other large English towns and cities. In France they began in the same way, but it soon became evident to the shrewd Frenchmen that such a course was ridiculous from every point of view—

that of consumer as well as company. The companies in Paris were assigned particular districts as early as 1839, and in 1853 they were all consolidated. In Germany, although they followed the example of England at first, it did not take them very long to see the absurdity of pursuing such a plan for any great length of time, and they soon adopted a system of laws which recognized the inevitable, and acknowledged the monopoly nature of the gas business.

When one looks at the question from a wide view, as to the effect of competition among such companies, upon the economy of the supply of capital in the country, one wonders how any one could ever have thought that it would be a good thing to allow competition among them. Think for a moment what it implies. It involves at least two or three and even more works where one would be sufficient. It means two or three and even more mains where one would be ample. It necessitates a corresponding number of different services in each house, and an enormously large number of inspectors and collectors—and all for what? Cheaper gas? By no means. The enormous sums of capital which such a system wastes will certainly try to earn dividends in some way or other, and the only means is in high prices of gas, or else what amounts to much the same thing, in a poor quality. When the public is finally compelled to take hold of the matter in earnest, to remedy the abuse, as it always must sooner or later, the large sums of wasted capital are always put forward as entitled to some consideration in fixing the rates.

We have had the same experience in this country exactly. The *Philadelphia Record* gave an account some time ago of the course of events in this respect in some of our American cities. A Committee of Congress in passing upon the application from a new gas company to lay its mains in the streets of Washington reported as follows :

It is bad policy to permit more than one gas company in the same part of the city. Experience has demonstrated that

opposition gas companies are not beneficial, but that they are injurious to the interest of the citizens, and instead of promoting cheap gas, they prevent and retard it by greatly increasing the capital necessary to carry on the business. To permit a competing company to enter in the business would be simply to increase the capital without increasing the business. Why should this be done when there is no good reason of public necessity for it, and when it amounts to a moral certainty that both companies will combine? When there are two parties to combine either will not long carry on a profitless business, and it is a well-known fact that every opposition gas company started in this country after a short term of competition, has either sold out, bought out, combined or pooled earnings with the old company. While the brief competition lasted, of course cheap gas prevailed, but when the inevitable combination takes place the people are made to pay the expenses of the war on a greatly increased capital. It seems that no law has yet been enacted that can prevent such combination, and there is no law that can prevent the individual stockholder buying the stock of the other company. Upon these and other good grounds the authorities of Boston and Cincinnati have refused to permit competing companies, and the citizens of those cities are enjoying cheaper gas than in the cities where competition was allowed. In England competing companies are forbidden by law, and existing companies are allowed to make ten per cent. on their investment. Hence the cities of the British Islands have the cheapest gas in the world. The prime cause of this cheap gas is that they have not excessive capital to earn dividends on. Opposition gas companies have not been capitalized on the old ones.

> Every American city which has permitted competing gas companies to lay pipes in the streets, has suffered through the consolidation of the companies, the capital having been increased, and the consumers forced to pay higher prices for their experience. The following cities have received this treatment :

New Orleans,	Providence, R. I.,
Charleston, S. C.,	Brooklyn,
Memphis, Tenn.,	Jersey City,
St. Louis, Mo.,	Newburg, N. Y.,
Chicago,	Trenton, N. J.,
Buffalo, N. Y.,	Harrisburg, Pa.,
Detroit, Mich.,	Lancaster, Pa.,
Albany, N. Y.,	Baltimore, Md.,
New York City,	Savannah, Ga.,
Poughkeepsie, N. Y.,	Paterson, N. J.

Before consolidation the price of gas in New York City was seventy-five cents per thousand feet, but as soon as the six companies came together they watered their capital from \$18,308,920 to \$39,078,000, and raised the price of gas one dollar per thousand feet, making it one dollar and seventy-five cents.

In Baltimore the price of gas was advanced seventy-five cents per thousand feet; in Harrisburg it was raised from one dollar to two dollars; in Paterson, N. J., and in Savannah, Ga., the price was also raised.

In Detroit, Mich., a stringent charter was granted upon the filing of a bond to secure the city against the possible combination of the old company with the new one; but in spite of this iron-clad agreement a combination was effected, and the people were forced to pay not only all the expense of the gas war and the duplication of works, but also a large dividend on an inflated capitalization.

This is a point of such importance that we may well dwell upon it more at length. It is safe to say that one of the most obstinate prejudices of the average American is his unreasoning belief that free competition will protect him from all the evils of industrial monopoly. And that, too, though he is often himself engaged in the very work of effecting a combination by which all competition is effectually prevented in branches where such combination is most difficult

from the nature of the business. The testimony of one or two experts in the business of gas manufacture may serve to show how clearly those actually engaged in the industry see that the business is and can be only a monopoly. Mr. Gilbert, of Grand Rapids, Michigan, in a speech before the American Gas-Light Association, at their meeting in Washington, October 15th, 1884, said, "The business of the manufacture and distribution of gas is so peculiar in many of its characteristics as to be almost outside of the domain of rules governing other enterprises. Capital once invested cannot be removed and if not profitable is lost forever. Competition is so deadly to it that it is impossible for rival companies to occupy the same streets without ruin to both, or without consolidation with its attendant double investment and cheap light rendered an impossibility."

"It is a fact not admitting of controversy," says a writer in the American Gas-Light Journal, "that the cost of gas to the consumer has never in any instance been permanently lowered through the competition of any opposition company ever established in this country, in spite of the inevitable outcry made by the progenitors and promoters of such schemes as to their willingness and desire to make such concessions to the public in the matter of selling prices. Opposition gas schemes as a rule, and unfortunately a rule which admits of few exceptions, are instituted with the primary object of raiding as far as possible the business of an established company, which business it may have taken years to develop and acquire. What better example can be found than that of Brooklyn? During the term of Mayor Schroeder permission was given to the Mutual Gas-Light Company to open the streets and avenues of the city for the purpose of laying mains and conduits for the supply of illuminating-gas. In consideration of such grants the projectors of the company agreed that a greater price than \$2.00 per thousand feet should not be charged consumers. What was the result? This company from its very inception did all it could to

wreck other companies. And the wrecking policy was carried out not by selling gas at a lower price, but rather by efforts which had for their object the depreciation of stock values in order that a controlling interest could be secured at figures much below its true value. In reality, instead of selling gas at lower figures, they increased its price. The pledge made to the authorities at the time when a charter was sought, not to demand more than \$2.00, was given only to be broken. To-day they are charging \$2.50 in all localities where they have succeeded through their adept system of stock depreciation in gaining control of the field.

“The city of Yonkers affords a good example of the intolerable state of things which follows an attempt to regulate prices in this branch of business by competition. There are now three companies. They are not slow in canvassing for consumers, and the consequence is that the householders are constantly altering their allegiance by continued change in the bestowal of their favors, now giving to one company and then to another. The streets are torn up in all directions making travel difficult if not impossible; the leakage of gas may be noted in abundance, and the public can get no remedy from the stench which is so strong that many houses and stores are rendered almost uninhabitable by it, since each company claims, when appealed to, that the leak emanates not from its conduits, and consequently refuses to make search for the seat of the trouble. And thus the matter is continually growing worse and will probably continue to do so until combination takes place and the consumers have to pay for the whole loss of capital since the inauguration of the period of competition.”

One other quotation from an authority on gas-matters, Mr. Theobald Forstall, of Chicago, will be amply sufficient to prove how gas-men regard competition. In a speech before the American Gas-Light Association, from which I shall quote again, Mr. Forstall said :

“Up to the present time the influence of legislators and councilmen has been exerted in favor of new companies

through ignorance of the consequence. Urged on by the cry of competition from the press, the unreflecting public and the owners of patents, they have in many cities actually made cheap gas impossible by encouraging an investment of capital in gas-works and mains far in excess of present demands of consumers, overlooking the fact that the income upon the expenditure must be earned by increasing the selling-price of gas. Nor is the evil confined to those cities in which competition actually gains a foothold. All gas companies established without guarantees and subject to the whims of councils and the cupidity of rings, appreciate the uncertainty of their position and prepare for the inevitable struggle by maintaining a higher price to increase the profits and reap the fullest harvest while the field is all their own. The desire to make the most of a precarious situation is a trait of human nature not confined to the directors of gas companies. And thus the uncertainty of tenure has been and is to-day an active cause of dear gas and excessive dividends in anticipation of probable competition. Nor is there a single permanent advantage which can be offered in good faith to municipal corporations or individual consumers by a competing gas company which an established one would not willingly concede in exchange for permanency of tenure. Moderate dividends well secured over a term of years are more attractive to investors than large but uncertain profits which may disappear at any moment by the unexpected votes of a few aldermen. Were this a new question and one peculiar to the United States it could be easily proved *a priori* from the very nature of the business that the ordinary law of competition does not apply to the supply of gas."

Judge Cooley, of the Michigan bar, has put the case quite as strongly from a little different standpoint. "The supply of public conveniences to a city," he says, "is usually a monopoly, and the protection of the public against excessive charges is to be found first in the municipal power of control. Except in the very large cities, public policy requires that for sup-

plying light and water there should be but one corporation, because one can perform the service at lower rates than two or more, and in the long run will be sure to do so. But scheming men make periodical attacks upon corporations existing for those and similar purposes, and with a popular cry for their watchword they can always enlist local interest in their favor. If they succeed in obtaining a rival franchise, the subsequent history is commonly this: a war of rates for a season and then either a sale of one franchise to the owners of the other or a division of territory or an agreement in charges. The final result is this, that the two supply the market at greater cost than the one, and the additional cost is paid by the public. Whoever expects that a destructive competition is to be continued indefinitely, must have a faith in the integrity and public virtue of local boards which experience scarcely justifies. The legislature which exposes a great property invested in a public enterprise to disastrous risks, offers a direct inducement to irregular and crooked proceedings. If men solicit from a city a franchise which they cannot legitimately make profitable, it is a natural inference that they propose to use it as a trading property or in some way to find their profit in the manipulation of future councils. The true policy of the state is to give due and full protection to corporate property and at the same time to insist upon the faithful performance of corporate duties. It is no more for its interests to invite and encourage raids on corporations, than it is to countenance vast corporate profits for which no adequate return is made. In some kinds of business competition will keep corporations within bounds in their charges, in others it will not. When it will not, it may become necessary to legislate upon profits. If the business is simple, like the supply of light or water, this can be done by prescribing a tariff of rates."

Professor H. C. Adams, in a recent address entitled the *Principles that should Control the Interference of the State in Industry*, attempts to determine by an analysis of the nature

of the industries themselves, which of them may safely and economically be left to the free play of competition. He divides industries into three classes, termed industries of constant return, industries of diminishing, and those of increasing returns. The first two, he thinks, are adequately controlled by competitive action; the third class on the other hand requires the superior control of state power. Industries of the first class are such as demand proportional increase of capital and labor to secure a given increase in product. That is to say, if $2x$ capital and labor result in $2y$ product, the application of $3x$ capital and labor will result in $3y$ product. The increment of return is equal to the increment of capital and labor. All those businesses in which success depends largely on attention to details and where the personal element of the laborer is brought prominently into view, fall under this class. For example, the retail business of merchants is subject to the rule here stated. It is not necessary for public officials to inquire if sugar is sold as low as fair dealings demand, for this business is one that admits easily of multiplication, and, consequently, invites competition. The step from a clerkship in a grocery to the proprietorship of a new establishment is not a difficult one to take, and for this reason we are assured that the profit of an ordinary grocer will not greatly exceed the salary which he must pay his head clerk. There can therefore be no motive for applying the rule of financiering to businesses of this sort.

The same conclusion applies to the second class of industries where a given increment of product calls for a proportionally larger increment of capital and labor. Assuming the same relation to exist in an established business as before, if $2x$ capital is required for $2y$ product, an additional x of capital will not produce an additional y of products, but something less. That is to say, $3x$ capital may produce not $3y$ of product, but only $2\frac{1}{2}y$ of product. It calls for no abstruse argument to recognize that society is quite safe in submitting such lines of industry to the control of competition. The

ratio of product in the new industry is greater than in the one that is farther developed, and for this reason we may rely on individual interest to maintain a large number of separate producers. Farming is a fair example of this class of businesses.

In the third class of industries, the increment of product increases with every increment of capital. Thus, if 2x of capital give 2y of product, the economic application of 3x of capital will give more than 3y of product. Where the law of increasing returns prevails, the principle of free competition is powerless to exert any healthy regulating influence. This is true because it is easier for an established business to extend its facilities for satisfactorily meeting the new demand than for a new industry to spring into existence.

Now it is evident that the gas business belongs to the third class of businesses. It is, thus, by its very nature, outside of the sphere where competition can be depended upon to exercise a regulating influence. It will be answered to this, I know, that the invasion of a gas company has often forced prices down and that although they were afterwards raised, they never went back to the old figure. This is not true always or, perhaps, even of the majority of cases. But the reason why it has happened in some cases is not far to seek and supports the truth of the view we are maintaining. It is evident that in the case of the third class of industries, a company engaged in this field may make enormous profits protected by its practical monopoly. After a while the attention of other parties may be attracted to this fact. It is pretty evident that under the circumstances they cannot hope to compete with an established business as far as the ability to offer cheap gas is concerned, for they must invest an enormous amount of capital before they can get any returns at all, while the old company may get returns on every dollar expended in answer to a really new demand. But if the old company is really making the enormous profits which may undoubtedly be made under such circumstances, it is perfectly possible for a new company to force them to divide profits by entering the field.

So clearly is this recognized to be the object of most companies which attempt to enter a field already occupied, that the old company ordinarily buys out the plant of its rival in order to get it out of the field. The whole outcome of the project under the most favorable conditions is that the new company, or rather its manipulators, have bled the old company, and the old company has lost some blood, which it now proceeds to suck out of the community again in the shape of the old rates. By showing how much its works have cost, counting in the purchase of the useless plant of the rival, it secures a seeming justification for rates which, considering the reasonable cost of a plant, are often simply outrageous. In addition to this, a large sum of capital has been wasted in the mains and plant which might have brought in some useful return to the community if it had been invested in some productive enterprise. * It is possible that the investor has lost something but the consumer has gained nothing at all. The natural fall in price of gas which would have been brought about by the enormous improvements in the manufacture which have taken place in the last ten years, and the new uses for residuals has been again and again defeated by the attempt to regulate price by letting in a competitive company. Of course the private companies are not going to lower prices any faster than they have to do it, but the way to compel them to lower the price is not to let in a competing company, since that has failed wherever tried, but to regulate the price by public authority, *i. e.*, we must recognize the monopoly character of such undertakings and act accordingly.

Such being the fact, it remains for us to choose between monopolies in the hands of private parties and monopolies in the hands of the government. It was at one time in the history of modern nations no uncommon thing for the government to grant to private persons trade monopolies of all kinds. It amounted practically to giving to private persons the right to plunder the public to any extent within the limits of the possible. The government derived the advantage of whatever

sums the parties could be persuaded to pay for the privilege. Some of these monopolies were granted for purely personal reasons, in order to enrich favorites of the men in power, whether it was a king or an aristocracy. Since we have come to have a different view of the relations of government and governed, so that we now insist that any special privileges shall be granted, not for the benefit of the government in the narrow sense, but for the advantage of the public, we no longer regard such grants as legitimate. It is now an axiom that no special privilege shall be granted except in order to further the public interest. The granting of a monopoly can be justified therefore, nowadays, only on the ground that such a plan is the best means of securing some public benefit. It goes, then, almost without the saying that in case such a monopoly is granted it must be attended with such restrictions and conditions as will secure the interests which it is intended to further, viz., those of the public. We cannot think of conferring upon private individuals the absolute right to a certain branch of business, and then let them exploit the public at their discretion. That is to say, we must subject the company receiving a monopoly to the strictest supervision on the part of the public. Our choice, then, is still further limited, viz., to a regulated monopoly in the hand of private parties on the one hand, and public management on the other. When the case is presented in this form, and who can deny but what this is the correct form, that is, the form which actually corresponds to the facts of the industrial world around us, we get from the very first a correct insight into the real problem which confronts the city government of our modern state.

It would seem at first blush that there could be only one sensible answer to the question which form we should adopt. It would appear almost as a matter of course that, if it is necessary to organize a monopoly in order to secure the interests of the public, this monopoly should be within the control and management of the public. Public ownership

is, therefore, the natural system in all cases of necessary monopolies.

If any one proposes, then, to confer the grant of a monopoly of the manufacture of a prime necessity of life upon private persons, the burden of proof must lie upon him. He must prove beyond a peradventure that the interests of the public can be best secured by that system, since the whole presumption is against his position. With this fact kept in view let us examine the arguments pro and con in regard to the benefits of public and private management.

The first ground commonly advanced against public ownership and management is the old and threadbare statement that the state has no business to engage in industrial enterprises. Such general statements as this are the ordinary refuge of ignorance and selfishness. It is the usual position of those who have not taken the time to study the history of government action in ancient and modern times, or who are interested in preserving the *statum quo* because they are enabled to profit by the general prevalence of such an idea in the community at large. The same kind of argument has been advanced not only in this field, but also in nearly every other one as well, to keep the government from assuming and performing the new duties which come to it with every passing year.

It is by such arguments as these that the government was kept for years from assisting in the establishment of free schools, from adopting laws in regard to the condition of factories and the working of women and children in the factories, from establishing public asylums for the unfortunate classes of the community, from establishing public bath houses, etc., etc. In a word, whenever it has been proposed that society should undertake in earnest the work of improving the conditions of life in its midst by such means as promised to be of value, we have been met by this class of chronic objectors and alarmists who have loudly cried out, "It is not the business of the state to do any of these things." If we had taken counsel of this class we should have had to-day no free schools, no sanitary

regulations, no safeguards of life and liberty such as we now have in many different fields; we should be in a sorry way indeed.

Perhaps this point is important enough to merit a digression of some length. What are the true functions of government? How shall we determine the proper limits of state interference? In every period of human history there have been political theorists who have attempted to define and point out the true functions of government. They have attempted to draw a sharp line between those things which a state may and the things which it may not do. One set have laid down the general principle that it is the sole business of government to protect the life, liberty and property of its citizens. There might not be much objection to this statement, if the proposers of the theory would give a sufficiently broad interpretation to the theorem, but they have usually limited the meaning to a very narrow field. For example, if a railroad makes a discrimination in its charges as between citizens, it destroys the value of property just as certainly as if it took a force of men and marched to the place and destroyed one of the buildings belonging to one party. And the interference of government in such a case is justified simply on the ground that it should protect the rights of property. But the adherents of this theory have usually taken a very narrow view of the range of the fundamental hypothesis. Another set of theorists have added to the proposition stated above that the state may also undertake to establish and support those institutions which can never become profitable to private individuals, but which it might well repay the community to establish and support. Still other theorists have added those institutions, which, although they might be profitable to private persons and are necessary to the public welfare, are by their nature monopolies, and should therefore be in the control of the state rather than in the control of private parties who would exploit the public as far as possible.

None of these theories have been satisfactory and that for a very good reason. It must appear plain to every one who

gives even a slight attention to the subject, that the attempt to determine the true functions of government in general is idle, for the simple fact that they are different for different conditions. It is plain that the government of the civilized people may—nay, must—do many things which for the government of a barbarous people, are utterly out of the question. Think for an instant, of trying to limit the functions of such a government as ours, to the same number, and identical forms which are appropriate for a tribe of American Indians. The mere statement is absurd; and yet, if there are certain true functions of government in an absolute sense, they must apply equally to the Indian and to the citizen of Philadelphia or New York. The “true” functions of government are local and temporal in their nature, they vary with different stages of civilization, with different peoples, with different times, etc., etc. It is useless, therefore, to try to lay down any rule or law which shall be equally applicable to all states and conditions, for all times and places. John Stuart Mill has perhaps expressed this fact most happily. He says in one place in his treatise on political economy, that it is difficult to lay down any general rule, except the vague one of general expediency, and that no function should be assumed, unless the grounds in its favor are very strong; in another place he remarks that the ends of government are as comprehensive as those of the social union, they embrace all the benefit and all the immunity from evil which government can be made to confer. The particular things which a government can do with advantage to the society which establishes it, vary with the social state, the form and organization of the government, etc.

The proper functions of government are, then, not absolute, but relative, and they change with an advancing civilization. Those then who say that the State should not undertake the manufacture and distribution of gas, because it is not the business of the State to engage in industrial enterprise, may be answered in various ways. In the first place, they

assume the whole point in dispute when they lay down this broad proposition. There is in the very nature of the case no general principle to which they can appeal in order to prove their point, except the very proposition which they are to prove; again, it is evident from certain facts in our system of government, that we, as a people, anyhow do not believe in this as a general principle, since our government, as a matter of fact, does engage in various forms of industrial enterprise, and that so successfully that nobody proposes to exclude it from this sphere. Take for example the most general form of government—the Federal. It runs the post-office which is a gigantic industrial enterprise, and one which, looked at as a social institution, pays enormous profit to our society. We all agree that the government should retain this institution. Many people think that it should also undertake the telegraph. It would be safe to say that a very great majority of the people would favor such a measure if they were not afraid that such a move would increase to too great extent the patronage of political parties, *i. e.*, they fully believe that it would be a legitimate government enterprise, but are opposed to the actual assumption of such business on the part of the government solely on grounds of expediency. Many of our people look upon the express business in the same light, while one of the most eminent jurists in the United States has lately given it as his opinion, after a thorough investigation of the elements in the case, that it will not be many years until the people of the United States will regard it not only as the legitimate business of government, but also as its imperative duty to assume the management of the railway system of the country; that the time will come when it will be regarded just as absurd to let private individuals run the railroads as it would now to propose to hand over to the same people the management of all the wagon roads in the country. Whether this be so or not, the fact that such a man holds such an opinion is sufficient to show how our ideas on this subject of government interference change with time and circumstance.

In the sphere of local government we see instances of the same kind. It has now become the rule in our American cities for the city to own and manage its own water works. Now and then, it is true, we hear the sentiment expressed that this is also not a proper business for the city corporation, but the voices are so few and so weak, with the exception of those who are trying to get possession of the works for their private enrichment, that they have no great influence. When we come nearer home and ask what the people of the various states think about this question, we find that they believe fully that it is a legitimate function of city government to look out for the wants of the citizens in regard to water and gas since they have usually incorporated in their laws full permission to establish and operate both gas and water works. I have given more attention to this point than it merits, perhaps, in this immediate connection, because we hear so much about the true functions of government from certain parties on every public occasion, that, unless we stopped and looked into the matter, we might suppose that there really is some patent means by which we can determine in each individual case whether it falls within the charmed circle of legitimate government functions, without taking the trouble to investigate the merits of the particular case itself. The question whether any particular function should be assumed by the government, is a special problem which must be examined separately upon its own merits and not decided according to the *a priori* dictum of a political theorist.

If this point be well taken, we have only to examine the particular grounds for or against the private or public system of management. It is claimed in the first place, then, in favor of the private system of ownership, and, consequently, in so far against the public system, that private companies can manufacture more cheaply than the public corporation. Even if this were true it would not by any means follow that it would be for the interest of the public to allow private companies to get possession of this monopoly. For how would it help the

public to know that private companies could manufacture cheaply, unless the latter would sell the gas more cheaply. This last is the important point. It does not follow by any means that the public would profit by this greater cheapness. The whole history of gas undertakings, both in this country and in Europe, is against any such claim as this. If it be a fact that the private company can manufacture more cheaply than the public, this only means, as a matter of fact, that a few men may get very wealthy out of the business if they can get the chance.

But let us examine this claim, that the private company can manufacture more cheaply than the public. What are the grounds usually advanced to support this proposition? It is said that the private owner has a more immediate interest in the business than the public officer, and that he will look more closely after the details of the business. He can prevent many little losses, which in the aggregate make up an enormous total. This is undoubtedly true of a business which is small enough to allow one man, *i. e.*, the owner, to actually oversee and supervise the details of his business. This is not at all the case in a great undertaking where the owners are numerous and have to entrust the management entirely to paid agents. Even where the directors are taken from the number of stockholders, this does not by any means give a sure guarantee that the business will be carefully managed. The actual supervisors must be few in number, and it is often more to their advantage to follow their interests as private individuals in a position to make great gains in illegitimate ways, than to secure large dividends on their stock—a state of things which exists in very many of our large undertakings, as many poor stockholders in this great country of ours can testify. A large company must depend on the faithfulness of paid agents just as much as the public in its management. Now, is it true that the employees of private firms are, as a rule, more faithful than the government officials? There is wide-spread impression, I am aware, that this is the case,

but I do not think that it is true. It is certainly not true where there is a proper system of civil service. In Germany, for example, the private employers could count themselves happy if they could only secure as high a standard of probity and faithfulness to duty as the government secures in its service. There are indeed potent reasons why a government can secure this faithfulness more easily than private parties. Its service is associated with more dignity in the public mind. It is possible to develop an *esprit de corps* in the government service which no private firm, however great, could hope to secure.

A government which organizes its civil service on a sensible basis, can obtain more devotion and faithfulness by far than any large company, which, by the very plan of organization, must be as impersonal a body towards its employees as the state, without enjoying that universal regard and respect which is everywhere connected with government service, no matter how bad it may become.

The only advantage which a private company possesses over the government is, that it may offer large rewards for any extra keenness on the part of its employees, which result in bringing large profits to the concern. This policy is exceptional, however, even in the case of private companies, and the experience of other governments, and, indeed, of our own, is that scientific investigators in the government employ are just as eager and keen in the pursuit of science as though they were working for private companies with the expectation of large reward. This extra keenness is moreover of special value only in speculative business in which the competition is close, and where everybody in the employ of a firm must be on the guard against the wiles of competitors. It has not very much place in a business like that of a monopoly company, in whose case the inducements to trade lie chiefly in making a low price of gas in order to enable more people to become purchasers.

On the contrary, so far from the industrial advantage being on the side of the private company in this comparison, there

are some considerations which go far to justify the statement that the public can manufacture more cheaply than private enterprises. In the first place, a city can usually obtain the capital necessary for the enterprise at lower rates than private individuals, so that the fixed charges in the shape of interest on money invested in the plant may be considerably lower in public than in private undertakings. Secondly, since the gas company must be a monopoly, it is peculiarly liable to attacks from the public. Every few years a bitter attack is made upon the privileges. This state of things acts to make the value of the stock unsteady. There is an element of risk which must be made good by higher dividends during the periods of rest. The risks in the case of a private company are far greater from this cause than in the case of a public management, and these risks must be paid for in the only way which is open to the companies, viz., higher prices of gas. —

Mr. Vanderpool, one of the most successful gas-managers in the country, called attention in a speech before the American Gas-Light Association at Cincinnati in 1885 to the absolute necessity of charging high prices in order to compensate for risk attending the enterprise owing to continued and unavoidable public attacks.

So much for the theoretical argument in the case, which rather seems to be on the side of the public company.

When we turn to experience to find out what answer it makes to the question, whether private companies or public companies manufacture more cheaply, we shall not get a perfectly decisive answer, but it will be one which is quite as favorable to the public as to the private company. I have not been able to get the necessary statistics on this point in regard to American companies. They are, indeed, not attainable. Our private companies are interested in keeping their affairs as secret as possible, and we have no means of getting at the facts in the case.

The same Mr. Gilbert before mentioned called attention in the speech above quoted from, to the fact of over-capitalization,

which I shall notice again in another connection, and said that the prices of gas should and must come down, and referred to the experience of his own company which had paid good dividends although it had lowered the price of gas. In answer to a question of a fellow-member as to what dividends the company had actually paid, he replied that there were things connected with all gas companies which their owners do not care to have published—which means, of course, that it is to the interest of our present companies to carefully keep all facts relating to the actual cost and profits of the business from the public which is often being fleeced whether the company is making anything or not.

In England the companies are compelled to report certain facts to the government from time to time, and some of these facts will be of use to us. During the year which ended March, 1884, the public companies in the United Kingdom of England, Ireland and Scotland, amounting to some one hundred and sixty, carbonized 2,459,341 tons of coal, from which they obtained 24,507,217,850 cubic feet of gas. This would give 10,000 cubic feet of gas to the ton. The private companies during the same time, carbonized 5,171,963 tons of coal, from which they obtained 52,333,749,963 cubic feet of gas. This would give 10,127 cubic feet of gas to the ton. This would indicate that the private companies managed to get, on the average, about 127 cubic feet more per ton of coal than the public companies, which would represent about one per cent. advantage in this respect. There seems to be no appreciable difference in the per cent. of leakage and waste if one can infer anything in this respect from the difference between the actual amount of gas sold and that consumed, since the per cent. thus unaccounted for was almost identically the same; being in one case nine per cent. and in the other nine decimal one per cent. Of course, neither of these points is absolutely decisive since the economy in the manufacture of gas does not consist merely in the getting of the greatest number of feet of gas per ton of coal, but largely in

the relation of the value of the residual products to the price of coal, and the process which results in giving the largest amount of gas per ton, often destroys the value of the residual products very materially. The difference between the amount actually sold and that manufactured, includes not only the waste, but also the amount consumed in the works, so that the results given above are only indicative of tendencies. There is another reason why the result given above does not justify us in inferring too much, and that is that the amount of gas derived from the ton of coal depends largely on the quality of the coal, and the report does not show whether there was not great difference between the different companies in regard to the kind of coal employed. But so far as the returns go, the showing is very favorable to the public companies. The general opinion in England seems to be that the gas furnished by the public companies is better than that made by private companies, if one may infer anything in regard to that from the number of complaints in regard to the gas of the private companies. The management of many of the public companies is, according to the admission of prominent directors of private companies, almost a model in its character, and may serve to the private companies as examples of what gas works should be. All that the cities have to do is to pay enough to get good engineers, and they can have just as good works and just as cheap gas as any private company can possibly manufacture. The history of Germany in this respect is very similar to that of England. The public companies have made about as good a showing as the private companies, although in the first place they were erected in some cities which the private companies refused to enter, because the prospect for profit was not great enough. The city gas works of Berlin, which were built in 1846, and are, therefore, now nearly forty years old, are a model in every respect. They have served as the standard by which the other companies of Germany could measure their efficiency and success. The management of the works has been remark-

able even in Germany, the land par excellence of good and cheap administration. The city has often realized as high as ninety and sometimes as high as ninety-five per cent. of the price of the coal used from the sale of the residual products. It is claimed by the private companies in Germany, that the cost of manufacturing in the works controlled by the city, is about three per cent. higher than in those controlled by private companies. Even if this be true, which is disputed, it is not sufficient to establish the superiority of private works over those of the public. It may, then, be fairly said that this claim set up for private works that they can manufacture more cheaply, has not been by any means proven, and that the evidence is ample that public works may be, and as a matter of fact are, managed quite as cheaply or, indeed, more cheaply than private works.

In Philadelphia there is an example of a private company, the Northern Liberties, which, according to the *Philadelphia Record* of December, retains the most crude and old-fashioned methods. For instance, the ammoniacal liquor which, with proper management, can be sold for twenty-eight cents per ton of coal carbonized, is allowed to run to waste at the Northern Liberties Works, while even the Philadelphia Gas Trust manages to get four cents per ton for theirs. Two bushels of lime are used at the Northern Liberties in purifying one ton of coal carbonized, while in English works the proportion is one bushel of lime to each ton of coal. The old-fashioned furnaces in use there will produce 10,080 feet of gas from Penn Gas Company coal, using twenty bushels of coke under the retorts. With regenerative furnaces the Trustees could obtain 11,500 feet of gas from the same coal, with only twelve bushels of coke under the retort, saving eight bushels of coke, fifteen per cent. of coal and ten per cent. of labor.

Mr. Gilbert, whom I have quoted once before, says that the gas companies in this country protected by supposed exclusive rights, have shown a great lack of that progressive spirit which gives to all business its best results.

This is nothing more than we might expect from private companies enjoying practical or legal monopolies. The gas companies of New York waste 25 per cent. of the gas manufactured, showing what we may expect in the way of economy from a private monopoly. If they should be able to keep up the present exorbitant prices for gas they can well afford to waste 20 or even 30 per cent of the gas and still make enormous profits. The history of the Birmingham (England) works, in the hands of private parties and in the hands of the municipality, is full of instruction on this point. They were acquired by the municipality in 1875, and within four years the productiveness was just doubled. They were able to earn in 1875, at the time of purchase, £82,290, and in 1879, they earned £165,000. In this case and in many others municipal management has attained a profit of 17 per cent., where private management only got 8½ per cent.

Mr. Arthur Silverthorne, an eminent English expert from whom I shall quote again in another connection, says "that the event has since proved that nothing could be more felicitous than the way in which our municipal authorities have managed even the largest gas undertakings confided to their care, and I fearlessly assert that the unpaid bodies have achieved far superior results to those obtained under the directorate of private companies." More evidence on this point will be adduced in another connection in a later part of this paper.

However this may be, of one thing we may all be certain, viz.: That whatever may be true of the possibilities or actualities of cheap manufacture on the part of private companies, they rarely fail to exploit the public in the most merciless way, and they do not hesitate to resort to the most questionable devices to avoid the effective control of the public. Nearly every American city, beginning with New York and Boston, can afford most ample proof of this.

The next most important argument in favor of leaving the business of making gas in the hands of private companies is,

7 that in this way a great source of political corruption is kept out of city politics. This argument is heard only in this country. It does not occur to foreign cities to allow their public works to become a source of political corruption in this sense. This argument can be met in two ways. In the first place the giving of such power to the private companies does not change the fact of political corruption, if the conditions
→ for such an abuse exist in the respective society. It merely changes the form. Private companies do not, perhaps, use their works as mere resting-places for political henchmen, but they do what, in some respects, is still more corrupting and ruinous in its influence on our politics, they go into the business of buying votes of councilmen and legislators by the wholesale. They resort to the most objectionable form of bulldozing in order to make their workmen vote for their particular candidates in the districts where their works are situated. The revelations in the reports of the New York Senate Committee of Investigation are sufficient to convince any but the most obstinate or stupid that the mere fact that the gas business is in the hands of private companies, does not give any guarantee that it is therefore no force in city politics. Consider, for a moment, what a power for evil a company with a capital of \$20,000,000 or \$50,000,000 may be in all city affairs. It may be said that it would at least confine itself to gas questions and leave other questions alone, so that there would be some chance for the proper considerations to have influence in most questions. The history of gas companies does not justify any such bright hopes. In the first place, they always join hand in hand with every other monopoly in the community, be it a legal monopoly or not, in order to prevent any investigation or regulation of monopolistic abuses. The gas company can always be relied upon to assist the water company, for example, in all attempts to resist the law and plunder the public under the forms of law. Both will unite to help any form of actual monopoly in holding its own against any effort to break it down. Our American communi-

ties are ordinarily delivered bound hand and foot into the power of the enemy where gas and water companies manage to unite with the tendencies to industrial and commercial monopolies which exist in our midst.

Private gas companies then do not inaugurate or preserve any purer atmosphere in city politics. They only change the form of the rottenness and corruption. On the other hand, it is perfectly possible to secure such reforms in the administration of our cities, as will result in removing this grave evil from our city politics. This general point deserves very careful consideration, because it is one of the sorest points in our democratic form of government. So far our attempts at local government in the large cities, have been mostly failures. Many abuses have also become very evident from time to time in the administration of our federal and state governments. What is the best means of remedying these abuses? One party says the only way is to take from the government the power to touch these things at all. That is, for fear that the government will do some harm, because of its bad administrative methods, we must take away from it all power of doing good. This general plan is the refuge of incompetence and cowardice in all critical junctures.

We might as well face the issue squarely, and make up our minds to solve the problems of administration. One thing is very certain, that unless we do this we need not count on being able to retain our popular form of government in the long run. There is nothing surer in the domain of political science than that the form of government which best furthers the interests of society will persist and remain. If those of us who believe that the democratic form is the best, would see our ideals realized, we can only accomplish it by showing that this form is able to keep the advantages of the other systems and add some of its own which do not attend the other forms. To do this we must improve our administration, which is and always has been the weak point of democratic forms of government. The way to improve our administration is not by

trying to abolish it. Such a policy has never, in the long run, worked anything but evil. This is not solving the problem, it is trying to avoid it. Do the best we can, there will still remain a modicum of government administration which we cannot get rid of without going back to a state of practical barbarism. And long before civil society would consent to do this, it would acquiesce in any form of government, even in that of a despotism, which would secure to it the most essential conditions of a life worth the name. Indeed, it has been claimed, and that with good reason too, that the real source of the bad administration which is characteristic of our system as a whole, is to be found in the fact that we have reduced the functions of government to such a minimum, that nobody cares about what government may or may not do except those who have a pecuniary interest in the running of the machine. There is undoubtedly some truth in this view. The true road to government reform is not through the means of diminishing the importance of government action still more, since that would leave the same abuse in the government as before, and merely diminish the incentives to their reform. Misuse of the power to control the gas undertakings, does not spring from this addition to government functions. The tendency is there and is showing itself in every part of the city government. Leaving the management of the gas business in the hands of private parties will not contribute to reform this tendency; resting it in city boards need not increase it. It must be attacked from an entirely different side. The whole city service must be removed from politics and put upon a purely business basis. When this is done, we can manage the gas business as well as the policing of the streets. The same argument which would prevent the city from taking the gas works or from keeping them when they are in its possession, would lead to giving up the water works, and then the business of taking care of the streets, and then of the police, etc., etc. Those men who really desire to reform the city civil service, should oppose

most vigorously any proposition to still further reduce the interest which the average citizen still possesses in the city government, since it would then be impossible to get any attention at all to administrative problems. The true and only system of securing a pure and efficient administration, lies in getting the state to assume its proper functions, and then it will become evident to all that the only way to have a tolerable state of things is to insist upon a sensible system of administration which can be then more easily obtained. The stake of the citizen in good government must be real and great before he will give adequate attention to the questions of governmental administration. One of the chief reasons why the citizens of this generation have been persuaded to take a livelier interest in city administration, is to be found in the fact that the cities have increased their functions in every direction to such an extent, that the expense of the various undertakings has begun to affect their pockets.

So much for what we may call the general argument. Now let us consider the concrete question as to whether the cities of the United States should assume the management of the gas works.

The cities of Philadelphia, Richmond, Virginia, and Wheeling, West Virginia, have for many years owned and operated their own gas works. It is worth while to examine their experience in order to see how successful these undertakings have proved to be. They fairly represent two classes of cities—the large and the small. The city government of Philadelphia, in common with that of our other large American cities, became at one time a byword and almost a synonym for inefficiency and corruption. The gas works shared of course in the general deterioration which became characteristic of our city governments during the years following 1860. They were managed extravagantly and were used as a great political machine, with all the evil consequences which always follow such a course. But there are several things to be considered in passing judgment on this question.

In the first place, the management of the gas works has always compared favorably with the other city departments. It may indeed, fairly be claimed that they were better managed than either the police or street department, or that of public buildings. They have already begun to share in the improvement which is taking place, slowly but surely, in the city government.

In the second place the city fathers who acquired the works, following the precedents which exist in our governmental history, provided what turned out to be the very worst system of management which they could have possibly devised and recommended to the community. They put the works under the control of a board of trustees, elected by the city councils, which form of management was to continue until the indebtedness contracted by the city, in the purchase and extension of the works, should be fully paid off. As it turned out there was no power in councils to investigate the affairs of the trust. The trustees were practically irresponsible. It did not take very long for the advantages here offered for the building of a ring to become very plain to the class of politicians who are always on the lookout for such things. A powerful political machine was built up on this basis. It is, however, very plain that the gas trust was not altogether responsible for the growth of such a ring; as similar organizations arose in every large city in the country, where they had no gas trust or anything similar to it. The recent management of the trust is very decidedly better, and now, for the first time in the history of the trust, the city has the power to reorganize the management, since the debt has been finally paid off. A strong movement has been set on foot several times to sell the works. Nearly every argument in favor of the sale, except those which came from parties interested, either directly or indirectly, in the sale, has been based on the previous management of the works by the trust. But it is pretty plain that if our fathers had set out to devise the system of management which should offer the best opportunity for all manner of crookedness, they

could not have found any better system than that which they actually adopted. An irresponsible board is the very worst species of government. Now it is evident that even if all the charges which are commonly made against the gas trust of this city were literally true, word for word, that fact would not by any means prove that the city could not manage the works any better under a different system. Because it failed to achieve good results under the very worst plan of control, does not by any means prove that good results cannot be achieved under a good system. In the second place, while the gas trust has undoubtedly laid itself open to grave charges of various kinds, yet, when we come to examine the facts of its management, we shall find the actual results achieved under this worst of systems are not such as to make it clearly evident that the city should dispose of the works, even if it could not find any better system than that now in operation. The city has to-day as the result of the gas trust's work, the possession of a very valuable property worth at least fifteen million, if not twenty or twenty-five million dollars. It has had a fair quality of gas at a price much lower than the city of New York, which is the only city which can fairly be compared with it. And if Philadelphia has had its gas trust investigations with no result worth speaking of, it has had at least no such a terrible state of affairs as that displayed in the city of New York, where the gas companies have charged shamefully high prices, and contemptuously bought up legislators and councilmen to act as they dictated. The state of affairs in New York, though not bad enough to excite great public disgust in this country, owing to its having many counterparts, seems to English writers on the subject to reveal a state of affairs which could not exist in England for twenty-four hours. They have had just as bad things in England, but they think that they are now beyond the possibility of such scenes.

The city of Richmond, Virginia, after sending a committee of seven of the city council to the cities of Baltimore,

Philadelphia, New York and Boston, to investigate the gas business as conducted in those centers, decided in 1850, to erect and manage its own works. They were in successful operation by the 22d of February, 1851, and have ever since been managed by the city. The price of gas which stood at \$4.00 per thousand feet in 1851, was gradually reduced to its present figure \$1.50 to private consumers and is furnished free to the city. The number of consumers increased from 1,500 in 1854 to 5,000 in 1885, and the amount consumed from 300,000 cubic feet in the former year to 138,004,258 in the latter. Although the total consumption is at present relatively small and the cost of manufacture is therefore relatively high, yet the works in 1885, received \$52,093 more than they expended, besides furnishing nearly 29,000,000 cubic feet of gas to the city for public lamps, etc., free of charge; which at the same rate as charged to private consumers would represent about \$14,500 more, or a total of more than \$86,000 profit, being equal to a rate of 17 per cent. The gas averaged more than 18-candle power. Gas was manufactured at the works in December, 1884, at a cost of 49 cents in the holder. The opinion of citizens of Richmond in regard to the success of their undertaking may be fairly represented by a statement of the Hon. W. C. Carrington, who in March, 1886, wrote to me as follows: "Our gas works have been operated with great success—furnishing our public lights free for streets and buildings, paying all expenses of manufacture and leaving in addition almost enough profit to pay six per cent. interest on the whole cost of original and additional construction." The manager, Mr. John H. Knowles, wrote about the same time: "The gas works are the only paying institution which the city possesses. Every tax-payer is a stock-holder. I have been first inspector and then superintendent for thirty-three years. The people, the owners of the works, seem satisfied with the management." In his annual report of 1882, Mr. Knowles stated that it becomes more and more apparent as time rolls on, that it was wise and prudent in the city to own

her own gas works: her ownership prevents opposition works or imposition; and it is now generally conceded that one gas works can supply gas cheaper than two in the same city, and the profits made by the works go into the treasury and are equivalent to relieving the people of that amount of tax; besides the works are becoming more valuable every year.

An attempt was made, in 1882, by a private company to persuade the city to sell to them its gas works. It held out what seemed to be most extraordinary inducements in the way of cheap and rich gas, etc. After a careful investigation, during which a committee was again sent in order to examine the works of many other cities, the common council, by a large majority, decided that it was the best policy for the city to keep its works and manage them itself. It is worthy of note that the committee which reported in favor of the city's keeping its own works was of the opinion that "as a matter of fact there is more danger to be feared from the presence of a wealthy corporation having valuable franchises, seeking to influence our elections by corrupt means, than there is that political harm will result from the city's control of its own gas department." It is safe to say, that the management of the public works in Richmond will compare favorably, from any point of view, with that of any private works in the country.

If, however, we would see what is possible in the management of public companies on a large scale, we must go to those places where it has been tried under the most favorable circumstances. We Americans can surely, when we once fairly give our attention to the matter, organize and administer as efficient a system of city government as either our English cousins or our German second cousins. There are in England, as said above, some one hundred and sixty public companies which are, on the whole, so well managed that they are quite as often models for the private companies as the latter for them. The relative number of public and private companies is changing continually in favor of the public companies. So sure are the cities in England of the

advantages of public ownership that nearly every week, certainly every month, some private company is bought out by the city. These works are often purchased at ridiculously high prices, which shows still further how great an advantage the cities expect to derive from the undertaking. I found a list some time ago in the *London Journal for Gas-Lighting*, which gave the prices which some seventeen towns had paid for their gas works. They ranged from one hundred and forty to three hundred and eighty-two. That is, some towns, in order to get rid of the private gas companies, were willing to buy the stock at nearly four times the par value. The average paid was over two hundred per cent. This does not look much as if the road to improvement of our condition lay through a continuation of private ownership.

With the exception of London, Edinburgh, Dublin, Liverpool, Sheffield, Newcastle, Preston, Bristol and Hull, the gas supply of the large towns of Great Britain is in the hands of the municipal authorities. In the towns just mentioned as exceptions, it is probable that ere long the gas works will pass from the hands of the companies into those of the local authorities. It is now generally admitted that there will be extensive changes soon in the government of London and that a great central authority will be established which will deal at least with subjects affecting the metropolis as a whole. When this board is established it is expected that one of the first of the objects that it will be asked to address itself to will be the acquisition of the various London gas works, and the example of London will doubtless be followed by the other cities. A strong movement in London has already been begun in favor of the transfer of gas works to the municipality. All who favor municipal reform in London are to a man in favor of such transfer. Nearly all the candidates elected from London to the present Parliament are in favor of the transfer. A circular was sent out just before the last election to all candidates from London containing among other questions the following: In case of your election would

you be in favor of the purchase by the municipality of the powers and properties of the Gas and Water companies? Affirmative answers were received from the great majority.

In 1885 over 42,000 taxpayers of Liverpool united in a petition to the city councils to purchase the gas works and operate them on city account. Dr. Gross, one of the members of the council, made a speech in its favor in the course of which he showed that in Lancashire the gas works owned by city corporations were valued at £6,000,000, while those owned by private companies were only valued at £3,000,000. *Gas and Water*, a London technical journal, says that in almost every instance where corporations took possession of the works the price of gas was lowered and taxes reduced from the income of the undertaking. The *London Times*, in commenting on this subject in a series of articles on municipal corporations, expressed itself as follows: "In all the boroughs to which reference has been made, a spirit—an intelligent spirit—of progress is to be found actuating the corporations. Even through the smallest boroughs is to be found a desire to extend their sphere of usefulness by assuming control of gas and water supply. Corporations have not always found it easy to get possession of the undertakings. In dealing with gas companies the corporations have had to contend with demands for exorbitant prices and since the passing of the Borough Funds Act this has been especially the case. The act referred to expressly provides that no local body shall spend any funds raised by rates to promote bills for the establishment of gas and water works which will compete with any company authorized by Parliament. The gas and water companies therefore knew well that they only have to hold out in the matter of terms and they must get their price, for competition on the part of the local authority is impossible. Until 1872 this was not the case, and Glasgow, Leeds, and Aberdeen succeeded in purchasing the existing companies by means of an application to Parliament to authorize them to establish competitive supplies. In each case the gas companies

offered strenuous opposition in the committee, but they were ultimately compelled to accept the terms offered by the corporation, the alternative being that the Parliamentary committee would sanction the competitive scheme. Therefore, since the passing of the Borough Funds Act nearly all purchases have been made by agreement.

The profits of the boroughs have been realized, it must be remembered, under circumstances which compare unfavorably with the profits that should ensue to the shareholders of an ordinary company. There is probably no instance in which a local authority has been permitted to purchase a gas or water undertaking without being subject to a requirement to set aside annually a certain proportion of the capital laid out, or to form a sinking fund for its ultimate extinguishment. Companies whose capital is provided by shareholders are, of course, under no such liability, and to that extent local authorities are handicapped, so far as comparisons go.

The relative efficiency of working, in one respect at least, may be seen from the fact that the average of gas unaccounted for of forty-nine works of private companies amounted to 9.26 per cent.; that of fifty public works only 8.88 per cent. So that in the very point in which private companies should show their relative superiority they are inferior.

Glasgow affords a fair example of public management as it exists in Great Britain. When the city assumed the works it took 8½d. per thousand feet sold, to pay interest on the capital which represented £3 13s. 11d. per ton of coal carbonized. In 1885 it required but 5½d. to pay the interest, and the capital employed is only £2 9s. 5d. per ton of coal. Since 1880 the quantity of gas sold has increased 33 per cent., while the capital has been decreased £260,130. The profits have been sufficient to pay for all extension of mains, meters and works which have been required to manufacture and distribute an extra supply of 500,000,000 cubic feet per annum and pay off £260,130 of debt. At the present rate fifteen years will replace the capital.

The borough of Dundee assumed the works in 1865, with the amount sold at 175,000,000 cubic feet, the price 4s. 10d. and the waste 23.30 per cent. As the result of twenty years management it sells nearly 400,000,000 cubic feet at a price of 3s. 6d. and with a waste of only 10½ per cent.

Leicester assumed the works in 1878, with gas at 2s. 10d. and a consumption of 555,000,000 feet. By 1885 the price had been reduced to 2s. 4d. and the consumption had increased to 800,000,000. Each reduction of 2d. in the price meant a diminution of revenue on old amount sold of £6,000, making a reduction of £18,000 in all. The original capital was £635,000 from which £19,000 had been written off from profits derived from undertaking. £8,000 had been put in a reserve fund, £3,000 laid out for purchase of chemical works to utilize the residuals, and £121,000 paid over for benefit of taxpayers.

It is not worth while to follow this aspect of the subject farther. These are fair examples and give us some idea why the assumption of this business by the municipalities has become so popular in England. The *London Journal of Gas-Lighting*, declares that it is much easier to enumerate the cities which do not care to get their works than those which do.

In Germany much the same state of affairs exists. They began with the system of private works, but it did not take them long to find out that this was not an ideal system. The gas-works of Berlin already referred to above were erected in 1846. In 1860 there were two hundred and sixty-six gas-works in Germany, of which sixty-six belonged to the municipalities, and two hundred to private companies. In 1883 there were six hundred companies, of which two hundred and ninety were public and three hundred and ten were private. That is, in 1860 about twenty-five per cent. were public companies, while in 1883 this number had increased to nearly fifty per cent. Even now the public gas works are more important than the private works, though not so numerous. The capitalized value of city undertakings is

nearly double that of private works, being one hundred and forty-three millions, as opposed to seventy-six millions. The inhabitants of the cities in which public works exist amount to seven millions, as opposed to four and one-half in those with private companies. The public works consume more than sixty-five per cent. of all the coal used in the manufacture of gas. The tendency is steadily toward the assumption of the works by the municipality. Of the one hundred and sixty-four leading cities, eighty-eight are supplied by municipal works.

In France we find a different state of things. Here only a small per cent. of the cities own the works. The reason for this is to be found mainly in the fact that there is no such thing in France as local government in our or the English or even the German sense of the term. As a result, whenever it is proposed that the state shall do anything, they think of the general government, and of course nobody proposes to have the general government undertake the business of furnishing gas to the municipalities. The result of this system of purely private companies is to be seen in the fact that many, or rather, most towns in France have not the advantage of gas to any great extent. The single city of Paris uses more gas than all the rest of France put together.

This fact in regard to Germany and England is full of significance for us. In both countries they have given all systems of management a fair chance, and as a result of the experience of the last fifty years, they are going over to the system of city ownership and city control as rapidly as possible. They tried the system of letting the private gas companies compete with one another in order to see whether this plan would furnish cheap and good gas. This system is now given up finally and forever in both countries. They next tried the system of regulated companies with practical monopolies. They tried all manner of devices to secure an effectual regulation of the companies. In England, for example, they prescribed the maximum price which they might charge for gas,

they prescribed the quality, *i. e.*, strength and purity, and then fixed the maximum dividend providing that all surplus should be used in reductions of price to consumers. They next adopted the so-called sliding scale, that is, they fixed a maximum price and normal dividend, but provided that, for every deduction in the price of gas to the consumer, they might declare an increased dividend. The increase allowed was one-fourth per cent. dividend for every reduction of penny in the price. This last device has been the most satisfactory on the whole. But any such a system pre-supposes the most entire publicity in the affairs of the company, and the closest supervision of its business by public officials, and wherever a city has a civil service which will adequately protect its interests by such supervision, it has also a civil service which could manage the gas-works themselves to the great advantage of the city itself. In spite of all these safeguards and restrictions, the complaints are so constant and so well taken in many cases, that as a result, the corporations are purchasing the works as fast as they reasonably can. Now if neither England nor Germany, with their enormously greater facilities for close and exact supervision, have been able to put up with the evils which arise from private management, surely we have but small chance.

In this connection I quote a portion of a letter which I received a few weeks ago from Mr. Arthur Silverthorne—the man in England who, perhaps, of all men there, has given most attention to this subject of the comparative working of municipal and private companies, and the author of several works of great merit on gas and water works.

“I have never swerved,” he writes, “for a moment from the opinion that borough monopolies in the form of public companies (that is what we call private gas monopolies, such as exist in nearly all American cities), afford the very worst form of despotism that a community can be subject to, and I feel great surprise that anything can ever be urged in their favor. The gradual repeal of these monopolies (for

the movement is still in progress) has led to cheaper gas, richer gas, and purer gas. From the moment our English municipalities succeeded in wresting the management of these concerns from the lethargic handling of these private companies, the gas corporations set such an example of improved working that it completely awoke the modern Rip Van Winkles, so much so that they have never ceased to imitate the municipal management, and in a large measure have later emulated the prosperity of the town-managed gas undertakings.

“I say, without fear of contradiction, that from a scientific point of view, twenty years ago the cities found the production of gas, owing to the inefficiency of management, a mere distillation of tar, conducted without any regard to scientific laws. The distillation of coal is now, on the contrary, owing largely to the influence of the public example, conducted on the most scientific principles; residuals that were thrown away by our predecessors are now properly manufactured into useful products, and the influence of scientific method is present at every stage of the process. The proper extraction of carbonic acid gas alone was a source of increased light unthought of by the old style manager. In the same category may be put the development of ammonia as a means of reducing the cost of manufacture. But the public companies have done a great deal more than the private companies can ever achieve. They have redeemed our capital debts and lightened public taxation.”

The experience of English cities, then, according to Mr. Silverthorne, is plainly in favor of public management, and that, in spite of the fact already alluded to, that the corporations, in seeking to acquire gas undertakings in England, have invariably had to contend against very exorbitant prices. The only means of relief was to get Parliament to allow them to start rival works and compete with the private company. This was forbidden by the before-mentioned act of Parliament in 1872, which practically put the municipality at the

mercy of the private companies. All purchases since 1872 have been on terms agreed, which really means at the terms of the companies.

The inordinate length and cost of arbitration has contributed in a great degree to this result, and, as a consequence, some of the principal rules of value have been greatly neglected, and now, consequent on the remarkable success of certain municipal undertakings, every imaginable device is resorted to in order to enhance the value of the plant, thus taking frequently the extravagant form of claims for back dividends, compulsory purchase of unused capital—all this in addition to maximum dividends allowed by law.

And yet, in spite of all these things, the rule of private monopolies is so unbearable that the municipalities are continually buying them out at their own enormous prices.

There is still another reason why it is bad policy for our cities to hand over to private companies the management of this monopoly. They would ordinarily have to agree to allow the company to charge a certain rate for the gas which it manufactured; this rate would be based on the supposed cost of gas at the time of contract. Now any such arrangement as this binds the city to pay this price, no matter how cheap the processes of manufacture become; it may very well be, that the processes may be so very much improved, that gas could be manufactured for one-half or one-third the cost at time of contract. The consumers would still have to go on paying a price which would represent a profit of two or three hundred per cent.—in a word they would thereby shut themselves off from any participation in the means by which the cost of production may be lessened.

It may be said that the city takes the risk of having the value of the works depreciate upon its hands, by the development of electric lighting to such an extent as to make them practically worthless. It is evident that is not the opinion of private parties who make a fair offer for the franchise. In the first place, such a supposition is a mere supposition which

is by no means justified from anything which we have thus far seen. In the second place, the public would bind itself to use gas at the price agreed on per thousand, instead of electric light at the smaller sum for an equivalent amount of light, if it handed over the works to a private company, and allowed it to charge a fixed sum per thousand; that is to say, it would have to stand the loss, after all, the only difference being that instead of a loss which would be represented by hundreds of thousands, it would be a loss of millions. Besides, the loss will have to be borne by the consumers, whichever way you turn it, since private companies are sure to charge a rate of insurance which will recoup them for any possible loss, which the consumers will have to pay. The difference in the price of gas which consumers need pay the city, and that which the private company will charge would build up a sinking fund which would pay for the loss of the gas works from depreciation, ten times over.

There is still another reason why cities should own their gas-works; they may become a very important source of revenue. It has been shown above, that such works can be managed as well by the public as by private corporations. Now suppose, for sake of argument, that the price of gas should be fixed at \$1.60 per thousand feet, and the consumption remains at its present amount, let us see how much revenue the city of Philadelphia, for example, might derive from its present works. We have, I am sorry to say, no means of determining exactly how cheap gas can be made in the city, since the reports of our Gas Trust do not give us the information which we need in order to be quite exact. But we have figures from other places which may be of some assistance to us.

In England at the present time, gas is manufactured at a net cost of thirty cents per thousand feet; some works in New England now manufacture it for thirty-eight cents per thousand feet in the holder, from the same coal as that used in Philadelphia. During the Gas Trust investigation, of

1881, Mr. Kennedy offered to give security in any amount, if the city would give him the contract to supply gas to city holders at sixty-two cents per thousand feet. In an address to the American Gas Light Association in 1883, its President at that time, Mr. Theobald Forstall, said: "For the first half of 1883 the cost of gas delivered to consumers by the South Metropolitan Company (of London) was 39.65 cents, and by the Chartered Company, 44.90 cents, the average being 43 cents on the whole quantity sold by both companies. Of the items making up this cost, two only are lower than the corresponding items in New York, viz., coal and labor. The net cost of coal, less residuals, was 9.60 cents per 1000 cubic feet, sold for South Metropolitan, and 13.33 cents for the Chartered Company. In New York the greater price of coal and the lower value of residuals would bring the net cost of coal up to 25 cents per 1000. The cost of labor and superintendence at the works of the London companies is 9.11 cents and 8.38 cents respectively. This in New York would be amply covered by 15 cents per 1000.

"To a single company, then, supplying the whole island, the cost of 16 candle-power gas would stand about as follows:

Coal, net cost per 1000 sold, less residuals, . . .	25
Labor and superintendence, per 1000 sold, . . .	15
Retorts, purifying material, etc.,	05
	—
Cost in holder,	45
Repairs, distribution, taxes and general expenses, .	20
	—
Total cost delivered, per 1000 sold,	65

"These figures are based upon actual expenses in other cities not more favorably situated than New York, which latter I have taken as a type of all the larger cities of the Union." Thus, according to the testimony of an expert in the business, gas could be furnished in New York to-day at sixty-five cents per thousand feet to the consumers by a private company. It

certainly could be furnished quite as cheaply in Philadelphia. If the prices were \$1.60 therefore, this would allow a clear profit of ninety-five cents per thousand feet, which at the present consumption would represent a profit of nearly \$2,000,000 per year to the city. It can easily be seen that a very large reduction in price could be made to the consumer, and still a very handsome profit realized for the city. The diminution in price would probably lead to a largely increased consumption which would go far towards keeping up the gross profit to the city. The City of Nottingham, in England, took possession of the gas works in 1875, when the price of gas was eighty-three and a half cents per thousand feet, and the consumption was almost 500,000,000 cubic feet. In 1877 the price was seventy cents, and the consumption, 623,000,000, and as the price was lowered to sixty-six and two-thirds, sixty-two, fifty-eight and fifty-four cents respectively, the consumption rose to 723, 891, 1000 and 1106 million cubic feet, while the profit on the undertaking rose from \$25,000, to 60, 70, 115, 135 and 165,000 dollars, for the corresponding year, *i. e.*, the price was lowered in eight years less than twenty-five per cent., while the consumption nearly doubled, and the profit increased about 600 per cent., a striking testimonial to the excellence of public management, as compared with the previous private management, as well as of the large increase in consumption and consequent profits which may follow a small reduction in price. There is no reason except poor management, why such a city as Philadelphia should not derive an income of \$1,000,000 per year from the gas works, while it lets the consumer have gas at \$1.00 or less per thousand feet. The London companies sell gas at sixty-five cents per thousand feet and still make twelve and thirteen per cent. dividends.

This source of revenue should not be overlooked at the present time. Our communities are in need of many great improvements—better water, better streets, better schools, etc., etc. It is almost impossible to persuade the people to put up

with a higher tax rate, and to sacrifice such fruitful sources of income when they can be so easily exploited without oppressing any one, is, in my opinion, the very height of folly.

It is very pertinent, of course, in this connection, to ask what form the management of the works should take. I think that there is only one safe form, viz., that of a city department with a chief appointed by the mayor, and assisted by a sufficient number of competent engineers selected with a view to their fitness. The engineers and all other subordinate employees, should be appointed on the basis of a competitive examination, and should be irremovable, except for inability to discharge their duty or for neglect of it, and on demand of the person removed, the chief should be required to state the same in writing, and send it to the Councils. The works must be in direct charge of professional engineers and the service must be absolutely divorced from politics, and the sooner we citizens of America recognize this fact the better. With such a service as this we may be secure from the corrupting influence of a gas trust Machine, of the equally corrupting influence of a private gas company; we may have good and cheap gas, and lower taxes.

Before leaving this point, it may be worth while to call attention to the fact, that even the Gas Trust of Philadelphia has given the citizens, relatively speaking, cheap gas. In 1884 the price of coal-gas varied from \$4.00 in Galveston, Texas, to \$1.00 in places like Chicago, and a few others, where gas wars were raging, while it has been reduced to \$1.60 in Philadelphia and will in all probability be still further reduced within a short time. Other large cities have had to pay considerably more than Philadelphia, besides paying taxes for the support of the public lamps, and having nothing to show for it all except gas consumed, while Philadelphia has a most valuable plant free from debt, and worth, including the franchise, fifteen or twenty millions of dollars.

Before closing this paper it may be desirable, even at the risk of some repetition, to present the gas question as it exists

in this country in its genesis and present condition. To get the facts clearly before us there is no better way than to relate the history of an actual gas company. In the small but rapidly-growing town of B—— a company was organized to manufacture illuminating gas. It asked and received no special privileges beyond those which lay in the very nature of the business, such as the right to open the streets and lay its pipes, etc. Its capital was \$150,000. The works were erected and proved very profitable. Dividends varying from ten to thirty per cent. were regularly declared year after year. In the course of a few years the growth of the community made it impossible to supply the demand for gas with the old plant and through the old mains. It seemed best to reconstruct the works entirely. This was done at a cost of \$350,000. Instead of regarding the old capital as long since amortized, *i. e.*, extinguished by the surplus already received over and above a fair return on the capital, it was still kept and the new enterprise capitalized at \$500,000 instead of \$350,000, the actual cost. On this new capital the returns were still large, reaching the old figure. In the course of another decade or two the same exigency arose again. The works were again reconstructed on a larger scale at a cost of \$500,000. The same process was repeated. The old capital was still retained and the new enterprise was capitalized at \$1,000,000, though a plant just as good as the existing one could be built for half the money.

Now, two or three things are evident on a very superficial inspection. In the first place, it is plain that this process of over-capitalization may easily be carried on to such an extent, where it is not checked, as to absorb all the possible profits of an increasing business, preventing absolutely the time ever coming when anything will be left to increase the wages of labor or lighten the burden of consumers. It is quite as plain, in the second place, that this process can take place unchecked only when the undertaking enjoys a practical monopoly. If free competition actually prevails, the inflow of new capital will

force the managers to regard amortized capital as dead and to run on the basis of the changed conditions. For example, if a man goes into the manufacture of cotton cloth and finds that he must tear down and rebuild his factory, he is kept from keeping the cost of his old mills in his capital account by the simple fact, that if he does so another man who is willing to come in and invest a sum of money equal to that which the new mill cost can compete with him on the basis of the existing cost. In the same way, if a new process makes his old machinery useless he must simply throw it away, charge it up to profit and loss, and begin again. In this way the interests of consumers are continually guaranteed so that they always obtain commodities on the basis of their cost of manufacture with the newest and most approved processes. The old capital is thus continually cleared away and the basis for a regular and rapid economic advance is secured.

In the third place, any such over-capitalization is fundamentally opposed to the interests of the community. The progress of the arts and sciences is tending with an ever more rapid pace to increase man's power over nature, *i. e.*, to cheapen production. The advantage of this tendency should redound to society in its capacity as consumer. Any process by which this is prevented is in so far injurious to society. A better means of counteracting this tendency has never been devised than the very common one of over-capitalization by which a few are enabled to intercept the profits which should accrue to the bulk of society.

The instance given above is a very simple one and is over-capitalization in its most legitimate or rather its least illegitimate form. In addition to this, there are usually the more objectionable forms of watered stock and bonded debt issued to an inside ring at rates far below its true value, etc., etc. The attempt to regulate these evils, by allowing competition, is, as we have already said, and shall say again, has been, and must be, a complete failure.

As to the actual state of facts in this country now, we may again quote Mr. Gilbert. "All managers of gas property,"

said he, "understand perfectly well that it would be easy, with present knowledge and experience, to renew the plant with a much smaller investment than was possible under former methods. Have we a right to expect full dividends on capital invested under such circumstances? The prices ought and must come down. It is, of course, impossible to fix the exact amount of investment necessary or proper to produce 1,000,000 cubic feet, owing to varying conditions of population, business, and cost of materials. A careful English figurer estimates that the capital should not exceed £5 for every ton of coal carbonized, which means at 10,000 feet per ton \$2.50 per thousand feet of gas sold, so that 25 cents profit per thousand would pay ten per cent. on a fair capital. This can be almost, if not quite reached in this country."

Mr. Greenough, of the New England Association of Gas Engineers, says that 50 cents profit would pay ten per cent. on the capital under the most unfavorable circumstances in this country. Mr. Vanderpool, of Newark Gas Works, says, that in England the capitalization of provincial companies reaches about \$2.94 per thousand of gas sold, and in London about \$3.22. But everybody knows that the London companies are enormously over-capitalized, and that they could be replaced to-day for half of the nominal capital. The present sum declared as dividends would pay at least 25 per cent. on the cost of a plant as efficient as their present one. It was also stated that the companies of New York are capitalized at \$26,000,000 when \$15,000,000 would be ample. Since the date of that speech the companies have combined and raised their capital to \$47,000,000, being, at least, three times what it should be. Baltimore had \$9,225,000 before the Equitable was swallowed, and yet it does not sell as much gas as Boston with one-fourth the capital. The average capitalization through the country is from \$6.25 to \$15.00 per thousand of gas sold. And yet an eminent gas engineer declares that \$5.00 is sufficient under the most unfavorable conditions, and that \$2.50 may be reached under favorable conditions. Mr.

Theobald Forstall, one of the most eminent gas authorities in the country, from whom I have already quoted, considers that \$3.00 per thousand sold would be ample for the city of New York, whereas it is capitalized at nearly ten dollars. The London companies, according to Mr. Forstall, are capitalized at about \$2.77 per thousand feet sold. "Nor must it be forgotten in this connection," said he, "that the capital of the London companies represents considerably more than the actual cost or present structural value of their plant. The excess of capital expended, in the days of competition, in miles and miles of unnecessary mains and services, in the extravagant Parliamentary charges incident to the establishment of every new company, in the great cost of developing a new industry, in which rapid improvement caused frequent renewals of apparatus—this dead weight is still represented in a greater or less degree in the present income-earning capital, and must be taken into account in comparing the situation in London and that in New York."

When we come to compare prices of gas to consumers, we find the widest variation, ranging from \$5.00 to 90 cents. This latter figure has been reached by the city works of Wheeling, West Virginia. Even under similar conditions the price varies from one to two dollars. It is then safe to say that our present system has led to over-capitalization and high prices. It has had, therefore, as a consequence, a most decided limitation of the consumption, as compared with what is desirable. The consumption in England averages two or three times as much per head as in this country.

The attempt to let competition regulate the prices of gas is and must be a failure. The only question is what must we put in the place of the lack of system which has hitherto prevailed. There ought to be pretty general agreement as to two or three fundamental principles. It is clear, in the first place, that if we are to depend on private enterprise to furnish the gas supply, we must provide a system under which there will be some inducement to invest capital in this branch; and,

on the contrary, if we would do the best for the interests of the public, we must provide a system which will prevent such shameful exploitation of the consumers as has characterized many of these undertakings, and such shameful waste of capital as has characterized nearly all of them. We should recognize the inevitable and grant to gas companies a monopoly within the territory which they supply. In this way we secure the first conditions of a cheap system of supply, viz., that there shall be no waste of capital in duplicating mains and plants. We must then proceed with the intention to grant to those who put their money into the enterprise, the right to reasonable dividends on their capital. Finally we must devise some system by which the consumer shall get the benefit of all earnings of the business after reasonable dividends have been paid.

Various plans have been attempted in order to secure these results. The earliest attempts to regulate the operations of the company took the form of prescribing the maximum dividends which the companies should be allowed to declare, and at the same time prescribing the quality of the gas and the price at which the gas must be furnished. Any profits which should accrue after such dividends were earned should be applied to lowering the price of gas. The weak point in such a scheme is evident. After the maximum dividends are reached the company have no inducements to increase the efficiency of the works in any respect, since they cannot in any case profit by such improvements. In such cases a slothful management has nearly always come to the front. The maximum dividends were reached at a time when gas was still costly to manufacture, and as it made no difference to the company whether they made their profits on a large or small consumption, they remained by the small consumption and high prices. Of course in any such system, careful provisions had to be inserted regulating the increase of capital and providing for the fullest publicity of all accounts. This plan though often tried has not given satisfaction in any place where it has been adopted.

A second plan, sometimes incorporating the former and sometimes not, has been extensively tried on the continent. The gas company has been allowed to undertake its work agreeing to furnish a gas of a given quality at a certain price, in return for which it should be allowed to declare a dividend and accumulate a sinking fund which should replace the original capital within the period of the charter, at the end of which the works should be turned over to the city. This plan has also failed to give satisfaction. The experience of the city of Cologne which adopted this plan, or rather a modification of it, which allowed the city to purchase the works at the expiration of a fixed period, at a given valuation, may serve as a fair example of the experience of other cities which have tried similar plans. When the city in 1873 assumed the works it found them in a most dilapidated state, in spite of all attempts at supervision during the time in which the company operated themselves. The works had to be reconstructed entirely and new mains laid throughout. It is almost impossible for any external body to supervise the works, as it would take only a smaller force than that which is necessary to operate the works.

Another plan which has given by far the best satisfaction is one adopted within a few years in England and known as the sliding scale plan. Under this system the companies agree to furnish a gas of a given quality at a maximum price. They are allowed to declare a standard dividend. A maximum price is fixed for gas. For every reduction in the price they are allowed to declare a further dividend. Under this plan the interests of both parties lie along the same lines. If the company sees its way clear to improvements which will lower the cost of manufacturing gas considerably, it has a decided inducement to do so, as by this means it is also allowed to declare a higher dividend. In London, for example, the Gas Light and Coke Company is allowed on its ordinary stock a standard dividend of 10 per cent. while its maximum price for gas is 3s. 9d. per thousand feet. For

every reduction of 4d. in the price they are allowed to declare an additional dividend of one per cent. Thus when they reduced to 3s. 5d. they were allowed to declare a dividend of eleven per cent. In 1884 the price was reduced to 3s. and the dividend was raised to 12 per cent. This plan is by far the most satisfactory one thus far adopted. It pre-supposes, as is very evident, the strictest supervision of the company by the government and careful provisions in reference to capitalization. In London, for example, the accounts of the companies are examined regularly by the city auditor and the consent of the government must be obtained in order to increase the capital.

None of these plans have proved satisfactory. The other alternative, that of government management and ownership, is therefore being accepted on a large and increasing scale even by those who have the most efficient machinery for exercising the necessary supervision. Scarcely a week, and certainly not a month, passes in England which does not witness the transfer of some gas enterprise from private to public management.

The argument in the early part of the paper in regard to public ownership turned almost exclusively on the financial point. The final and decisive argument, however, in favor of city ownership and management is the fact that the control of a necessary of life should not be handed over to a private company, however carefully its conduct may be watched. Cases are arising constantly when the legitimate interests of the private corporation will lie directly in the way of the public interest. Take, for example, the case of a considerable lowering of the price of gas to the consumer, which is often imperatively called for by the industrial and social interests of the city. If the enterprise is in private hands it is very likely to be very conservative in the policy of lowering prices with the hope that an increased consumption will more than make up for the loss. A city, on the contrary, may often find it greatly for its advantage to sacrifice for a time the profits for the sake of furthering the consumption of an

article which may perform such valuable services to the community in the various ways indicated above. As a matter of fact, the demonstration of how rapidly the consumption of gas may follow a reduction in the price of gas was reserved for government undertakings. The municipal corporations of England first taught the private companies the possibilities for the stockholder himself which lay in a lower price. They are the only corporations which find it for their interest to continually lower the price until it approximates more nearly the cost of production and to rely on large sales at low prices instead of on small sales at high prices.

We have already made great mistakes in allowing the policy of competition to force an amount of capital into these enterprises which make cheap gas almost impossible. We should make quite as great a one if we allow private companies to make this capital the excuse of plundering the consumer for the next twenty-five or fifty years by exacting prices which will pay enormous dividends on this capital.

In closing, let us summarize briefly the conclusions which we have reached.

I.—A good supply of pure and rich gas at low prices has become an absolute necessity of life in our modern city. It is necessary to the comfort of the home as well as to the efficiency of industry and trade.

II.—The technical and administrative conditions of the manufacture and distribution of gas, make the business a practical monopoly.

III.—We must choose, then, between a monopoly managed by the public in the interests of the public, and a monopoly in the hands of private parties.

IV.—No one proposes to hand over the business to a private monopoly without at least an attempt to regulate it in the interest of the public. All attempts so far made in any civilized country to regulate such private monopolies effectively have failed most conspicuously. If sufficient inducements are offered to secure active and progressive manage-

ment, the interests of consumers are uniformly sacrificed. If such inducements are not offered the whole business must of course be a complete failure.

V.—The common argument against the public management that it is necessarily more expensive than private management, is not well grounded, either in reason or fact, since a careful analysis of the case shows that there are some reasons why public companies can, as a rule, manufacture more cheaply than private companies, and a study of statistics shows that public companies where properly organized are able to show at least as good results, so far as cheapness and quality of manufacture are concerned, as the private companies.

VI.—The argument that if private works manufacture the gas they will not take part in politics in such a way as to bring about the results inevitably connected with public works, is not well taken. The private companies do not go out of politics, on the contrary they devote the whole of their ability to the attempt to avoid the restrictions and regulations which the public must in pure self-defense impose. They go into the councils and into the legislatures and buy up councilmen and legislators in the most shameless way. They bribe the inspecting officers, and do not stop at anything which seems to promise any assistance. On the other hand it is at least possible to get rid of the worst evils of public management by a properly organized system of civil service. At the worst, then, the difference is that under private ownership we are subject to a master whose rule we cannot shake off, while we may at any time drive politics from public works.

VII.—This action in politics is very evident by its fruits, since no country in the world has been able to secure effective supervision, which has not at the same time been fully able to manage the works through the government. It is idle to expect to be able to keep the companies within bounds.

VIII.—The business of furnishing a necessary of life which can be carried on only in the form of a monopoly, is never

safe in the hands of a private company. If public management is really inefficient and corrupt, the only way out of the difficulty is to improve the public service. To hand over the business to private management is simply to make sure of retaining all the abuses which inhere in the public service, with no hope whatever that any of the advantages which may flow from efficient public management shall ever be attained.

IX.—To continue the farce of allowing competition to regulate prices simply means that good and cheap gas is forever impossible. It will still give to unscrupulous speculators an opportunity to bleed legitimate enterprise to such an extent that the latter will become impossible, and the whole business will become so uncertain that only speculators can go into it, which means, of course, high prices, great profits, great losses, and merciless exploitation of consumers.

To grant monopoly to private companies means either effective or ineffective regulation. If the former, we shall have high profits, enormous over-capitalization, gigantic stock watering, poor gas, and high prices, with all that such a state of things implies. If the latter, we shall have, at the very best, slothful management, and a consulting of private interests when they conflict with public, which is none the less injurious because it is from the individual point of view perfectly legitimate.

X.—The conclusion of the whole matter is that the best form of management of the gas industry is the public one, and that, if for any reason it is not resorted to, the community is constantly suffering a serious loss and that, too, no matter how successful the business may seem to be in private hands.

In corroboration of this view I may quote the testimony of one of the most distinguished of American gas engineers, Mr. Greenough, from a speech of his before the New England Association of Gas Engineers, February 18, 1885.

“If any city in this country (as some municipalities have done) should see fit to purchase the rights and property of

existent gas corporations, and would operate them with even a moderate degree of regard for the public good, there is no doubt that in many cases it might prove of public advantage. The most entire publicity would, of course, be given to the business; the public could, at all events, fix its own price, and the city could borrow money at lower rates than any private citizen would be content to risk his capital for."

Note to p. 53.—Dr. Edward W. Bemis gives the following quotation from a private letter from a prominent official in Wheeling, W. Va., in regard to the management of the city works in that place (see *Independent*, April 15, 1886):

"We furnish gas to consumers at ninety cents per thousand feet, and at this price realize a handsome marginal profit. Politics have never entered into the management of the works, although owned and operated by the city. This business has always been run on sound business principles." He then goes on to express some fears as to the future, which may or may not be well grounded.

COÖPERATION

IN

A WESTERN CITY.

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COÖPERATION
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A WESTERN CITY.

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COÖPERATION IN A WESTERN CITY.

I.

THE COÖPERATIVE COOPERS OF MINNEAPOLIS.

INTRODUCTORY.

The people of Minneapolis may be pardoned for exhibiting, at home and abroad, an extraordinary civic pride. Urban development at once so rapid and upon so liberal and metropolitan a scale has scarcely been seen elsewhere in the country; and citizens who are witnessing the unfolding as if by magic of a ragged western village into a splendid and palatial city, are stirred to enthusiasm, however dull their native temperament. In 1850 Minneapolis did not exist. In 1860 it was a village of 5,809 inhabitants. The number had increased in 1870 to 13,066, and in 1880 to 46,867. The State census of June, 1885, discovered a population of nearly 130,000, and the accessions of fifteen months have further swelled the number to about 155,000. It is not difficult to account for this remarkable and incessant growth. The railroad systems of the Northwest converge at Minneapolis and St. Paul and make these contiguous cities a principal distributing centre for a group of progressing States and Territories. The new demand of the world for the hard northern varieties of wheat has stimulated the cultivation of large areas of virgin soil, making Minnesota and Dakota the principal distinctive wheat-

growing region of the country, and giving Minneapolis eminence as the largest wheat-receiving market in America, not excepting Chicago or New York. The pine forests of the upper Mississippi and its tributaries have given Minneapolis the opportunity to build up a great industry in the manufacture of lumber. The magnificent water power afforded by the Falls of St. Anthony has invited the development about it of a city of large and diversified manufacturing industries, and it was natural that flour-milling should be preëminent among these industries. In point of fact, the flour mills occupy the central place in the industry and commerce of this prosperous young city. Twenty-six mills are clustered at the Falls, and they manufacture more flour by far than is made in any other city in the world. They have an aggregate daily capacity of about 35,000 barrels, and their product furnishes freight for from ten to twenty long railroad trains every twenty-four hours during the active milling season. These mills, with their revolutionized modern processes, are among the industrial wonders of the world, and are visited every season by thousands of strangers, who are duly impressed with the spectacle of a single mammoth mill which can produce seven thousand barrels of flour in a day, and of a group of mills which actually manufacture from five to six millions of barrels annually.

But it does not often occur to the interested visitor to inquire whence come the clean oak and elm barrels, of which many thousands are requisite every day. Barrels imply cooper shops; and the annual use of several millions of barrels by the mills would seem to indicate the existence of a subordinate industry of considerable proportions. But coopering is a humble craft in Minneapolis as elsewhere. The low-built wooden shops, obscurely located, attract no attention from the general public. Fluctuations in the price of flour, the shutting down or opening up of the mills,—these are matters of general interest and note; but the ups and downs of the cooper trade chiefly interest the coopers themselves. And yet these

handicraftsmen constitute a large body of citizens. Although the use of paper, cloth and jute sacks has increased of late years, about half of the Minneapolis flour is still shipped in barrels. Seven or eight hundred coopers are occupied in supplying the local demand. A majority of them are grouped in seven coöperative shops, all of which are admirably conducted and as successful from the business point of view as is possible under the conditions of the trade. Their coöperative system of production has stood the test of years and is no longer an experiment. There was no romance in its inception and there has been nothing brilliant or sensational in its history. The movement was not inaugurated with the laying on of apostolic hands. It had no literary or philanthropic or *doctrinaire* beginnings. It received no coddling or advertising. Its advent was attended with no speech-making or enthusiasm. So far as the obscure movement was known or noticed at all, it met with disfavor and distrust. It did not, however, assume any martyr airs or affect to contend unselfishly for a cause or an idea. Coöperation in Minneapolis took its start and won its way because of inherent advantages which made it an immediately desirable system for coopers to adopt, and which soon became obvious. It ought not to be necessary to assert that the sober and moderate prosperity of this movement, on its sheer, honest merits, and its freedom from exceptional and phenomenal conditions, are the very elements which give it valuable bearing upon the general question of labor organization. And yet to these elements, doubtless, are due its oversight hitherto, alike by the public and by economic writers.

The community at large is only beginning to grasp the labor question, and scarcely suspects the deep significance of much that is near and familiar. Probably scores of Minneapolis people have been interested in reading of M. Godin's "Social palace" at Guise, for one who has ever thought of the Minneapolis coopers as engaged in a still more important industrial experiment; and perhaps more of them have visited

the unique village of Pullman, near Chicago, than have entered the dingy coöperative shops of their own city. Doubtless there has been occasionally a believer in coöperation who has made a pilgrimage to these shops and has found himself encouraged and repaid; but excepting General Master Workman Powderly of the Knights of Labor, I have not heard of any recent pilgrim. The indigenous character of this coöperative movement; its remarkable exemption from the aid, patronage or praise of social reformers, political economists, hobby-riders or persons of the literary habit; its entire freedom from the self-consciousness and premature thirst for fame that characterize almost every social experiment however insignificant; and finally the common-place nature of its external features,—perhaps sufficiently account for the fact that writers on coöperation have overlooked the most important illustration which this country has yet furnished. The new interest in labor questions, and the earnest inquiries that are current as to better modes of labor organization, give timeliness to a detailed account of coöperation among the coopers of Minneapolis.

There is no single and universal remedy for social inequalities and infelicities. Improvement must be along many lines. Every honest experiment serves a useful end, either as example or warning, and its history is worth writing down. Coöperation, pure and simple, though not to be prescribed as a panacea for all the present ills of labor, has within certain limits not only immediate applicability, but also great remedial virtue. It is of practical importance to understand in a general way what its limitations are. They can best be determined by experience. *A priori* reasoning cannot avail much for the solution of practical problems in economics. It follows that there ought to be a painstaking and unbiased record made of the facts about coöperative enterprises. Unsuccessful as well as successful ventures should be carefully noted down. It is as a contribution to the growing mass of illustrative material out of which the useful principles and

hopeful plans of the future are to be evolved, that I propose to present an account of the successful working of coöperation among the coopers of Minneapolis.

BEGINNINGS OF THE MOVEMENT.

The small beginnings of the coöperative movement are to be traced back nearly two decades, to a time when the annual output of the Minneapolis mills did not equal the present product of a week. Although the introduction of sacks had not in 1868 greatly encroached upon the product of the ancient and honorable trade of coopering, forty or fifty journeymen were more than enough to make all the barrels required by the mills. A part of the time, when the mills were running at full capacity, the coopers had employment at good wages; but in slack times the market was overstocked with barrels, forces were reduced in the cooper shops and wages were low. The coopers of Minneapolis, like journeymen coopers everywhere, were of the sort depicted in the opera of *Boccaccio*, a roystering, improvident, irresponsible set,—transient and Ishmaelitic.

An individual exception,—doubtless there were others—was an intelligent young journeyman C. W. Curtis by name. He believed that if the “bosses” were dispensed with and the associated mechanics could deal directly with the mills, they would gain both in wages and in the certainty of employment. In the spring of 1868 he persuaded William H. Reeves, George W. Sargent and Joseph Combs to join him in a coöperative experiment. They began simply and informally. No organization was necessary. Each owned his kit of tools, and there were no large initial outlays to be made. They rented a small shop that was standing idle, purchased barrel stock in small quantities and went to work. They arranged with one of the mills to take their product at a stipulated price. They allowed themselves the piece-price

wages that the journeymen in other shops were getting, and divided the net profits. This division was not made on the *per capita* plan, nor based upon the trivial amounts of capital invested; but was in proportion to the amount of work done by each. The humble venture prospered during the few months of its persistence. It came to an end because the demand for its product ceased. The mills were largely shut down, and there was no market for coöperative barrels. The experiment was in every respect a success. If the market had justified its continuance and permitted its expansion, new members would have been received and the Company would have become regularly organized and incorporated. As it was, these first Minneapolis coöperators thought it expedient to sell their little concern to a boss cooper who was fortunate enough to have contracts for his product and who gave them work as journeymen in his shop.

Of the four, Mr. Curtis was the only one who knew anything about coöperation elsewhere. His brief experience in 1868 had been far from discouraging, and he was the more ready to try again when the occasion offered, as it did two years later. One Friday in the spring of 1870, the journeymen in the shop where Curtis was employed were informed that their wages would be reduced on the following Monday from 15 cents to 12½ cents per barrel. Monday found Messrs. C. W. Curtis, F. L. Bachelder, Lawrence Stoker and his son Frank Stoker at work in a shop of their own. They had withdrawn from the "boss" shop, leased a piece of ground, put up a small building—or more properly a shed, and had secured a contract for 4,000 barrels to start with. Their aggregate cash capital at the outset was less than \$100. They prospered beyond their expectations, and for a part of the time gave employment to two or three journeymen. The senior Stoker was made treasurer, but the shop had no formal organization and no other officers. It had been in operation for the greater part of a year when the promise of a large contract seemed to warrant its early expansion into a ten or twelve-hand

shop. Unfortunately the hopes of Messrs. Curtis and Bachelder were not realized. Their associate, Mr. Stoker, had not in him the spirit of a true and faithful coöperator. He ingeniously secured personal control of the desirable contract, and informed his associates that he was about to make his *debut* as a "boss" cooper. This *coup d'état* on the part of its treasurer ended the coöperative shop. Messrs. Bachelder and Curtis sold out to the Messrs. Stoker, and resumed the status of journeymen. The arrangement had been profitable while it lasted, and all parties were the gainers by it. It was the stepping-stone which enabled Mr. Stoker to become the proprietor of a large shop. And Messrs. Curtis and Bachelder had come out well pecuniarily and had profited still more greatly in experience.

At this time those experiments had just begun which have resulted in making Minneapolis the great flour-milling centre of America and of the world, and have revolutionized milling processes everywhere. The annual product had been less than 100,000 barrels in 1865, and less than 200,000 in 1870. The introduction of the new methods so stimulated the industry that the manufacture of 1873 reached nearly 600,000 barrels. The coopers naturally flourished under the expanding demand for their product. There was steady work at high wages. A coopers' union, organized as a branch of the International, was effective in securing the best possible terms for the journeymen from the bosses. More men were in constant demand, and Minneapolis became a cooper's Mecca. The journeymen seem to have held the reins from 1871 until 1874. The result might easily have been anticipated. The town became flooded with coopers. The bosses found it advantageous to keep twice as many men as were needed on the average, accommodating their product to the milling seasons and the fluctuations in the flour output. Employment at the cooper trade became uncertain and spasmodic. Not only were the journeymen obliged to forego steady work, but the bosses forced down the rate of wages. The union made its most vigorous fight without

availing much beyond exposing its leading spirits to the enmity of the bosses and to unfavorable discrimination.

It was under these circumstances that the permanent coöperative movement began. Mr. Curtis and Mr. Bachelder had been convinced by their brief and informal experiment of three or four years previous, that they could make coöperation succeed. They had also learned from the fate of that experiment, that there ought to be a businesslike, formal and well matured plan of organization. To what extent their plan was of their own devising, and to what extent they were indebted to suggestions from other sources, it is impossible to say. Whatever they may have borrowed was, at least, thoroughly adapted by them to the exigencies of their own situation. Mr. James S. Rankin, who was well informed with respect to coöperation in England and elsewhere, and who took deep interest in the inception of the Minneapolis movement, may have furnished hints and documents that were of aid in drafting articles and by-laws. From the beginning Mr. Rankin has shown a greater interest in the movement than any other person outside the shops.

The most serious difficulty to be met at the outset lay in the securing of a market. The coöperative undertaking had to meet the active hostility of the proprietors of the boss shops, who had much influence with the millers and the business community, while the obscure coöperators had none. The coopers were members of a union in affiliation with the International Workingmen's Association. The Paris Communal uprising was a recent event, and the International was synonymous in the minds of many people with red-handed French projects of social disruption. It is not very strange that the timid and ignorant conservatism of capitalists and business men should have vaguely connected a coöperative enterprise launched by trades-unionists with Communism and Socialism,—those undefined evils so hysterically denounced and so shudderingly anticipated a dozen years or so ago. It seemed for a time as if the suspicious organization would have prenatal death from

lack of public confidence. At length a friend was found in Mr. Charles A. Pillsbury, to-day the greatest miller in the world, and then a recent acquisition to Minneapolis. He promised the coöperatives the contract for supplying one of the mills he controlled, and on the strength of this promise the enterprise materialized. In November, 1874, the "Coöperative Barrel Manufacturing Company" was incorporated under the general laws of Minnesota and entered upon a business which has been more stable and prosperous than that of any non-coöperative coöpering establishment which has ever existed in Minneapolis.

THE FIRST COÖPERATIVE SHOP.

The Coöperative Barrel Manufacturing Company was organized by C. W. Curtis, F. L. Bachelder, Peter Kenney, J. W. Overacker and H. E. Roberts. Their names deserve honorable mention; for either in this parent association or in those subsequently formed they have been among the strongest pillars of the coöperative movement. Having secured their contract to supply one of the Pillsbury mills, they were in condition to open a shop and add to their membership. They began active operations with a brotherhood of sixteen men. A Minnesota law enacted in 1870 provides for the formation of coöperative societies. It probably owed its origin to the granger movement, being designed especially to facilitate the establishment of coöperative stores and distributive enterprises. Some of its features were not well adapted to the purposes of the coöperating coopers, and they preferred to organize under the general statutes in the form of an ordinary commercial corporation, or joint-stock company. The amount of capital stock was placed at \$10,000, of which 15 per cent. was to be paid when subscribed. Indebtedness and liability were limited to \$1,500. Officers were to be elected annually by the stockholders. The real constitution of the society was

to be found, of course, not in its articles of incorporation but in its by-laws. In most of their essential features these by-laws have remained unaltered from the first, and have been adopted without fundamental alterations by all the coöperative shops subsequently established. They are exceedingly creditable to the clear-headedness and foresight of Messrs. Curtis and Bachelder, by whom they were principally devised. Without attempting to indicate the changes of detail which have been found advisable since the inauguration of the movement in 1874, the existing by-laws of the Coöperative Barrel Manufacturing Company may advantageously be inserted at this point. They are as follows :

BY-LAWS.

ARTICLE I.

OFFICERS.

SECTION 1. The officers of this association shall be President, Secretary, Treasurer, three Directors, and Foreman.

OFFICERS' DUTIES.

President.

SEC. 2. It shall be the duty of the President to preside at all meetings of the members, and of the Board of Managers, to preserve order at such meetings, to decide all questions of order subject to an appeal to the house, to put all questions to vote, and give the casting vote in case of a tie. In the absence of the President at any such meeting the senior member present of the Directors shall act in his stead. It shall also be the duty of the President to sign all contracts entered into by this association, and all certificates of stock issued by it, to order the payment of all bids and claims against the company before the same shall be paid by the Treasurer, and shall keep a letter-press copy of all communications emanating from this association, in a book provided for the purpose.

Secretary.

SEC. 3. It shall be the duty of the Secretary to attend all meetings of the association, and make accurate minutes of all proceedings thereof, and record the same in a book provided for the purpose, and perform such other duties as usually appertain to this office. He shall keep an accurate account of all receipts and disbursements of the company, and a record of the amount

of work done by each member, and the amount of money received for said work, and shall receive from the foreman and record a weekly statement of the amount and price of all work sold during each week. He shall make up the monthly, semi-annual and annual reports of the receipts and disbursements of the corporation. He shall keep a file of all bills, contracts and other papers belonging to the company. He shall countersign all contracts made, and all certificates of stock issued by the company. His books shall be kept open at all times for the inspection of any member of the association, and shall, together with all receipts, papers, etc. of the association, be delivered by him to his successor at the expiration of his term of office.

Treasurer.

SEC. 4. It shall be the duty of the Treasurer to collect all moneys due the association, and to deposit the same in the name of the association, in such bank or banks as it may from time to time direct. He shall pay out no moneys of the association without an order by the President.

Board of Managers.

SEC. 5. The Board of Managers shall consist of the President, Treasurer and three Directors, who shall conduct and manage the business of the association. The Board of Managers shall elect a secretary from their number, who shall keep a record of the proceedings of the Board in a book provided for the purpose, which he shall read when called for by the association, and which shall be open at all times for inspection of members. They shall, on the first day of May and November of each year, make out a statement of the standing of the association.

Foreman.

SEC. 6. It shall be the duty of the Foreman to act as foreman of the shops of the association; to inspect all articles manufactured, and once a week to render the Secretary an accurate statement of the number of articles manufactured during the week, and also of the number and price of all articles bought and sold.

INSTALLATION.

SEC. 7. All officers shall enter upon their respective duties the first Monday after their election.

VACANCIES.

SEC. 8. Any office of this association may be declared vacant at any regular monthly meeting, or at any meeting specially called for the purpose, by a two-thirds vote of all its members, and the vacancy thus made may be filled at the same meeting by a majority vote of the members present. The officer thus elected shall hold office during the remainder of the unexpired term of his predecessor.

ARTICLE II.

DUTIES OF MEMBERS.

SECTION 1. Any member of this association who leaves his berth when the shops are running on full time, to take work elsewhere, shall forfeit the right to the berth which he has vacated, but should a member leave during a dull season, when the shops are running on a stint, his berth shall be reserved for him until the foreman of the shops shall notify him to return.

Intoxicating Liquors.

SEC. 2. No person shall be allowed to bring intoxicating liquors into any shop of this association, or to be drank upon its premises.

Withdrawals.

SEC. 3. Any member, with the consent of the Board of Managers, may withdraw from this association by giving the Secretary notice in writing of his desire to do so, when his membership shall cease and be determined. *Provided*, he shall immediately surrender his certificate of stock to the President, and receive therefor a note with interest at the rate of five per cent. per annum for all moneys due him by the association, payable six months from date.

ARTICLE III.

FORFEITURE OF MEMBERSHIP.

SECTION 1. It shall be the duty of the Foreman to reject all articles made by members of the association when not made satisfactory, or according to instructions, and if any member shall refuse or neglect to perform his work in a workmanlike and satisfactory manner, the Foreman shall report to the President, who shall call the Board of Managers to examine said member's work, and if they deem it necessary, shall authorize the President to call a meeting of the company, who shall have the power to discharge said member from the employ of the company by a two thirds vote of all members of the company.

ARTICLE IV.

STOCK.

SECTION 1. Each and every member of this association shall be a stockholder, and each member shall hold the same number of shares.

Transfers.

SEC. 2. No member of this association shall dispose of or transfer his membership without the consent of the Board of Managers, and all transfers must be made upon the books of the company.

Interest.

SEC. 3. Every subscriber shall pay fifteen per cent. down on each share of capital stock for which he subscribes, and interest on the balance at the rate of five per cent. per annum until fully paid, according to the last semi-annual and annual settlement, which interest shall be paid on the first pay days of April and October of each year.

Issuing.

SEC. 4. Stock may be issued by the Board of Managers when the members shall at any general meeting by a two-thirds vote so direct.

APPLICATIONS.

SEC. 5. No person shall be eligible to membership in this association who is not known to be a journeyman cooper, and of good moral character. The Board of Managers shall act on all applications for membership when so directed by the association, and shall have the power to accept or reject any application for membership in the association.

ARTICLE V.

DIVIDENDS AND ASSESSMENTS.

Settlement.

SECTION 1. The association shall pay five (5) per cent. interest per annum on the first pay days in April and October of each year on all moneys actually paid in on each share of capital stock at the time of the preceding semi-annual or annual settlement, as the case may be.

Appraisements.

SEC. 2. The real estate shall be appraised in each semi-annual and annual statement, and any loss or gain shall be divided *pro rata* per share.

Losses.

SEC. 3. All losses by fire, or failure of any corporation or business firm, shall be paid *pro rata* per share.

Assessments.

SEC. 4. There shall be a regular weekly assessment of not less than three (3) dollars nor more than five (5) dollars upon each member when the shops are running on full time. When not running on full time, the amount and number of assessments shall be fixed by the Board of Managers, and such assessments shall be regularly made, and applied upon the unpaid stock of such member until the full amount subscribed has been paid. Any member failing to pay his assessment shall be fined 15 per cent. for each and every offense, unless a reasonable excuse be given to the Board of Managers.

Payment of Assessments.

SEC. 5. All assessments and fines levied by this association shall be paid on the first pay day thereafter, and shall be deducted from the weekly pay of the members. All losses, so far as may be, shall be paid out of the regular weekly assessment, and the balance applied in payment of subscriptions of stock.

Dividends.

SEC. 6. The Board of Managers shall, at the semi-annual and annual meeting held on the second Wednesday of May and November of each year, declare all dividends or losses, and the amount thereof. When a dividend is declared it shall be paid in cash within thirty days thereafter, to such members as have fully paid up all their subscriptions. Those who have not fully paid up shall have the amount of the dividend applied upon the unpaid balance of their capital stock.

Gains and Losses.

SEC. 7. All gains or losses on the work of hired help, or on the manufacture and sale of stock shall be apportioned *pro rata* per member.

SEC. 8. All gains or losses not otherwise provided for shall be apportioned *pro rata* upon the wages received by each member.

ARTICLE VI.

DEATH.

SECTION 1. In case of the death of a member, this company shall pay to his lawful heirs upon surrender of the certificate of stock, all moneys known by the officers to be due them.

ARTICLE VII.

AUDITING COMMITTEE.

SECTION 1. The association shall appoint a committee consisting of three members at the regular meetings in April and October of each year, to audit the accounts of the association, and report at the semi-annual and annual meetings.

ARTICLE VIII.

MEETINGS.

SECTION 1. The semi-annual and annual meetings of this association shall be held on the second Wednesday of May and November of each year. A regular monthly meeting shall be held on the first Wednesday of each and every month. Special meetings may be called at any time by the President, upon the written request of seven members of the company.

SEC. 2. Fifteen members may constitute a quorum for the transaction of business at any regular meeting. If less numbers appear at the stated meeting they may adjourn for future day.

ARTICLE IX.

AMENDMENTS.

Shop Rules.

SECTION 1. All shop rules adopted by this association shall be equally binding with these by-laws upon every member of this association.

Amendments.

SEC. 2. These by-laws may be amended at any regular meeting of the association, by a majority vote of all members of the association.

Among the most important features to be noted by the reader of this series of by-laws are those which provide that all members must be equal share-holders, and that the ordinary gains or losses of the business are to be apportioned not *pro rata* among the members, but in proportion to the work they have done. Losses and gains of a different sort, for example those resulting from the work of hired help, from outside ventures undertaken by the association, gains from appreciation of real estate, or losses from fire or from non-paying creditors, are to be apportioned equally among the members. The distinction between the two kinds of profit and loss, one kind affecting the men as capitalists and the other kind affecting them as laborers, shows keen economic insight, and has great practical value. So far as I am aware, coöperative societies elsewhere have not made this distinction. The provisions for admittances and withdrawals are also worthy of careful examination, and I shall have occasion to comment upon them further on.

Such was the carefully wrought form and organization of the coöperative society which grew out of the brief experiences already described. The members, less than a score in number, made an initial investment of \$15 apiece, and a share of stock was issued to each man, the full amount of which was to be made up by assessments withheld from weekly wage-payments. These assessments for some time were at the rate of \$5 a week upon each member, and thus capital accumulated rapidly. An old cooper shop large enough for thirty hands, with two

quarter-acre lots, advantageously situated contiguous to the tracks of the Chicago, Milwaukee and St. Paul railroad, was soon purchased at a cost of \$3,000, of which \$1,000 was paid in ready cash, and the remainder two or three years later. It is interesting to note that in these early days of the enterprise there was not a little jealousy and distrust among the members. They lacked confidence in their own business capacity because they had never tested it; and it was with many doubts and misgivings that they committed to the hands of their elected treasurer the initial payments of \$15. The subject of official bonds was earnestly discussed. The fact that their officers had not standing or backing enough to secure bondsmen settled the question. There was a hundred times as much anxiety lest the first treasurer should decamp with the small sums entrusted to his care as has ever been felt with respect to any of his successors, who have sometimes had from \$10,000 to \$20,000 ready cash in hand at one time. No treasurer of a coöperative cooper shop has ever given bonds or has ever failed honestly to account for every penny, with one exception, as recorded in the next chapter.

The Coöperative Barrel Company prospered solidly and steadily. Its membership was not increased rapidly, remaining at less than twenty-five for some two years or more. In 1877 five or six members, among them being Mr. Curtis, Mr. Bachelder, and other original coöperators, withdrew as a colony to found a new shop (the "North Star"), with a view to more rapid expansion than had been the policy of the "Sixth Street Shop," as the parent institution is generally designated among the coopers. The payment of the mortgage on the property, the starting of a second flourishing shop, and the continued growth of the milling industry and correlatively of coopering, had now seemed to place the coöperative movement upon an assured basis. It became popular, and development was no longer slow. The original company soon increased its membership to forty, then to fifty, and so on, its working capital being constantly augmented by weekly assessments and the

issuance of new shares of stock from time to time. In 1880 the shop was destroyed by fire; but the loss of \$3,000 was nearly covered by insurance, and the enterprise received no check. Larger and more convenient shops were built upon the constantly appreciating lots. In the spring of 1885 the membership had reached one hundred and twenty, and the paid-up capital amounted to about \$50,000. Members had received their wages under a system that insured permanence of place, had in most years drawn gratifying dividends upon the safely invested capital which their weekly abstinence had accumulated, and could feel the pleasant assurance that whenever they chose to change their occupation or their residence they could withdraw from the shop without sacrifice and with cash for their shares. A large number of men, in fact, had occasion to withdraw in that very year. Labor-saving machinery, which was coming into general use in other places, had found its way into some of the Minneapolis shops. The sentiment of the coöperative workmen was against the introduction of steam machinery, but close competition made it necessary. The barrel partly made by machinery costs two or three cents less than the barrel made entirely by hand-work, and this seemingly slight margin is large enough to make the difference between profit and loss in a business where competition is so severe as in coopering. The total business was of course limited by the demand of the Minneapolis mills, and the Coöperative Barrel Company could not expect materially to increase its proportion of that business. The work which required 120 coopers without the aid of machinery, could be done by 90 coopers when hooping, heading and finishing was all that remained for the mechanic to do. At a cost of several thousand dollars the company put in machinery in 1885, and the membership was soon reduced to ninety.

Perhaps it may be well to notice somewhat particularly this curtailment of membership, as throwing a side light upon the methods and management of these coöperative companies. In a general way membership is self-regulative. Ordinarily, no

cooper would care to join a company which already had more men than the business required, because such a company would be obliged to keep its members working at short time on "stint," and could not pay full wages, not to speak of dividends. And of course the company would refuse to increase its membership, excepting as business outgrew the working capacity of the shop. When membership stands at a maximum limit, new comers frequently buy out old members, with the consent and approval in each case of the board of directors, and thus there may be, and in fact is much shifting in the *personnel* of a society that maintains a fixed number of members. When the introduction of machinery rendered the membership of the Coöperative Company too large by one-fourth, it was perfectly easy to make adjustment upon a voluntary basis. Some men preferred to transfer their membership to other shops where business happened to be better. Others were glad to take advantage of the company's offer of full cash payment of capital to set up as merchants in a small way or as farmers on government or railroad land. In most cases, naturally, the men who withdrew were recent rather than old members, bachelors rather than married men, and renters rather than owners of homes in the vicinity of the shop. The easy self-adjustment of membership to the conditions of business in these coöperative shops is a matter sufficiently noteworthy to justify this illustration.

The Coöperative Barrel Company has since maintained a membership of ninety. This does not include some twenty men and boys employed by the company as common laborers and in the routine processes of the machinery department. It should also be said that the company sometimes gives temporary employment to a number of journeymen coopers. The intelligent and efficient president of the company, Mr. M. J. Gill, informed me in March, 1886, that the company's real estate was valued at \$23,000, that it owned a stave factory in Wisconsin worth \$25,000, and that it had on hand materials and manufactured stock to the value of \$10,000, making total

assets of \$58,000. Liabilities of all kinds amounted to \$13,000. There was left a net value of \$45,000, or \$500 for each member. It should be remembered that retiring members had withdrawn a considerable aggregate amount of capital. The financial showing of the company must therefore be regarded as highly satisfactory. The stove factory in Wisconsin was purchased in 1883, all the members favoring the project. It has not proved a very profitable investment, and has convinced the coöperative coopers that they can ill afford to dabble in outside ventures. Mr. Gill pertinently remarks that a coöperative shoe-shop would better not attempt running a tannery as an adjunct. The stove factory investment has not been in any sense disastrous, but it has not justified expectations.

Of the ninety members of the Coöperative Barrel Company, probably from sixty to seventy are married men. Mr. Gill informs me that fully nine-tenths of these family men own their own homes, their houses and lots being worth, on the average, \$3,500. The entire membership were estimated as property-holders to an average amount of at least \$3,000 by President Gill, and one of the directors is authority for the statement that nearly all the members have property worth from \$3,000 to \$10,000, while several have even more. It should be said that this very comfortable state of things is to be attributed in considerable part to the rapid increase in Minneapolis real estate values in recent years as well as to the direct benefits of coöperation. On the other hand it cannot be too emphatically urged that but for coöperation these men would not have acquired their little homesteads in the first instance, and would not have been so circumstanced as to profit by the advance in values. I do not know of a cooper outside the coöperative shops who has similarly profited. Certainly there are not many. Lots were originally sold to many of the coöperative coopers on deferred payments and at low prices by real estate dealers who were developing newly platted additions which are now well built up and valuable.

It is interesting also to know, again on Mr. Gill's authority, that probably two-thirds of the members of his company who own homes obtained them through the aid of coöperative building and loan associations.

The present membership of this company includes about twenty-five men of American birth and parentage, thirty-five Scandinavians and twenty Irishmen, the remainder being of various nationalities. A large proportion are members of the Minneapolis Coöperative Mercantile Company, described in a subsequent chapter. It should be said that the Coöperative Barrel Company has absorbed two smaller coöperative shops of which no separate account need be given. The first of these was the "Excelsior Coöperative Barrel Company," which had about twenty-five members and was merged in the older and larger establishment in 1881 after a year's independent existence. The second was the "Union Coöperative Barrel Company." It was organized in the spring of 1884, and was absorbed by the Coöperative Barrel Manufacturing Company in the following December, its membership being about thirty-five.

THE OTHER SHOPS.

THE NORTH STAR BARREL COMPANY was organized in October, 1877, three years after the Coöperative Barrel Company had begun business. Its incorporators were Peter Kenney, Daniel G. Wentworth, F. L. Bachelder, John O'Donnell, and H. W. Burroughs; and C. W. Curtis, who had removed from the city, returned and joined the new enterprise. Three of these men, Kenney, Bachelder and Curtis, were among the originators of the coöperative movement and founders of the parent company, and the others were among the earliest members of the "Sixth Street Shop." The success of the "North Star" was assured from the first. It began with eighteen stockholders, each of whom was rich enough to take two paid shares of stock. This cash capital

of \$1,800 was rapidly augmented by assessments on pay-days and the issuance of more stock in lieu of distributing dividends. Well-located property was acquired, which has steadily advanced in value. The company reached its largest membership in 1882. Early in that year it absorbed the "Liberty Coöperative Barrel Company," which had been incorporated a year previous and numbered about twenty stockholders. The membership of the North Star was swelled to a round hundred. Its contracts were so large during the year following that it employed, a part of the time, eighty journeymen coopers, paying them the same wages as its own members. In 1883 membership began to decline, owing to the smaller proportion of milling patronage that fell to the company. Early in 1885 the membership stood at 77, each member holding eight shares (\$400) of stock, mostly paid up. In May of that year it was found that the competition of other shops required the immediate introduction of machinery. There followed, of course, a further reduction in membership, amounting, as in the case of the Coöperative Barrel Company, to about one-fourth. In March, 1886, there were 59 members, to each of whom eleven \$50 shares of stock had been issued. Mr. Burroughs, president, and Mr. Bachelder, secretary and treasurer, at that time estimated the value of the company's land and buildings at \$25,000, its plant of machinery at \$6,000 and the materials and manufactured stock on hand at \$8,000,—making total assets of \$39,000. Deducting liabilities of about \$4,000, there remained a net value of \$35,000. The average annual product of the shop is about 200,000 barrels. The membership of the company in October, 1886, was 56. These are nearly all married men, and it is estimated that about half of them own their homes. Some of the earlier members are in excellent circumstances, and the average is high. Not many of them belong to coöperative building and loan associations, but they are numerously represented among the stockholders of a coöperative store in the vicinity, as also are the members of the Coöperative Barrel

Company. The predominating nationality in the North Star is German. There are several Scandinavian members and several Irishmen. Not so many are of American ancestry, but a large majority in the shop are men born on American soil.

THE HENNEPIN COUNTY BARREL COMPANY is one of the most enterprising and prosperous of the coöperative organizations. It was formed in March, 1880, with twenty-four charter members. This association was the outgrowth of strikes in the "boss" shops, and none of its original stockholders came from either of the coöperative shops then existing. It adopted *in toto* the organization and by-laws of its predecessors. Business was begun with an actual cash capital of about \$600, or \$25 per member. A shop was rented on Nicollet Island, near the milling district, and after about six months a larger one was taken. The company flourished well, and in February, 1881, it increased its membership to fifty—drawing the new members from the non-coöperative shops—and bought property, at the same time amending its articles of incorporation and increasing the limit of authorized capital from \$10,000 to \$50,000. The purchase comprised what was known as the "Ames Shop," and included four lots, two on the east side and two on the west side of the Chicago, St. Paul and Milwaukee railroad, with shops on the east lots and warehouses on the west. The price was \$8,800, of which \$100 was paid in advance and the remainder was provided for in a contract calling for monthly payments of \$100, with the privilege of more rapid payment, at the company's option. The following year two additional lots on the east side were bought for \$4,000, and the two on the west side were sold for \$8,000. New shops were at once built at a cost of \$7,500, to which additions have since been made. The "Hennepin County" preceded the other coöperative shops by a year or two in the introduction of machinery, and made the most of its advantage, doing a very large business and earning very considerable profits. Its membership, which in 1882 or the following year

reached 57, remained the same until very recently. It is now (October, 1886) only 52. Its president, Mr. O. V. Dubois, a man of rare intelligence and executive ability, informed me in March, 1886, that the company's buildings and machinery were valued at \$18,000 and its land at \$17,500. Its property was mortgaged for \$10,000, but it had considerable investments in materials, etc., and its net assets amounted to about \$38,000. Fifteen shares of stock (amounting to \$750) had been issued to each member, nearly all of whom had paid up the full amount. During the past year or two the members of this company, like the other coöperative coopers, have been thankful for steady employment and living wages, and have not expected much reward in their capacity as capitalists; still there have been some profits to divide. In more prosperous years the company has been able to pay generous wages and, in addition, to declare semi-annual dividends amounting sometimes to more than \$100 for each member. The shop makes about 400,000 barrels a year, and serves some of the Washburn mills. It is hard to conceive of more perfect system and economy than is found in the operation of this admirable shop. Every member works regularly in his "berth" as a cooper, with but three exceptions. One of these is the president, who is at the same time the foreman of the establishment, managing the work inside and the business outside. The second is secretary and treasurer of the company, who acts as book-keeper, accountant and cashier. The third is occupied as superintendent of the mechanical department, where a number of hired men and boys are employed in routine and unskilled processes. About forty outsiders, occupied at common labor in the yards and the mechanical department, are on the payroll. The three members serving in the official positions specified, are paid salaries based upon the average earnings of the working coopers. The fastest workmen in the shop are somewhat better paid than the president. The men in this company are nearly all married, and about half of them own homes. A large number are members of coöperative building

and loan associations, and a majority are stockholders in the Minneapolis Coöperative Mercantile Company. About half are Americans, about one-third are Scandinavians, and the remaining sixth are largely Irish. The members work together amicably, and although differences of opinion lead sometimes to warm debates in the monthly meetings, there is ready and reasonable acquiescence in the will of the majority.

Of the existing coöperative associations of coopers, the PHENIX BARREL MANUFACTURING COMPANY is fourth in chronological order. Its articles of incorporation date from the 15th of March, 1881. Its founders were in some sense forced into coöperation. Nearly all of them had been working as journeymen in the Ames shop, and were thrown out of employment by the sale of the property to the aggressive young coöperative society last described. They were bold enough to turn adversity into prosperity by imitating the course of the men who had appropriated their berths. They organized as coöperators and rented the old Stoker shop just vacated by the Hennepin County Association, which had become possessed of the Ames property. They were as a rule young, unmarried men, and as impecunious as journeymen coopers generally are. They began with thirty members, each of whom made an initial payment of \$15 on one \$50 share of stock. In October, 1882, they leased ground and built shops at a cost of \$3,500. From the first they have furnished the barrels used by the "C" mill of Washburn, Crosby & Co., and have turned out an annual product of about 150,000, worth about \$60,000. Their membership still remains at the original number, thirty. It grew to thirty-seven at one time, but the requirements of the "C" mill do not justify more than a "thirty-hand" cooper-shop; and the Phoenix has been content with its one standing contract. The seven superfluous members were bought out in February, 1886. This company is not large enough or rich enough to feel justified in purchasing a plant of machinery, and is at a slight disadvantage in doing hand work; but it

has always been a successful shop. Like that of all the newer and poorer shops, its membership has been constantly changing, and in the present thirty are to be found only four or five of the thirty charter members. Through all changes, however, it has adhered to its original president William Cutler, who is also foreman, and it regularly re-elects its treasurer. Five shares of stock had been issued to each member when inquiry was made in the spring of 1886, nearly all being paid up. The company's net assets were then placed at \$7,000.

The Washburn "C" mill has needed the product of thirty coopers, at the market price for barrels. As coöperators, the thirty members of the Phœnix have had all the benefits of the contract. No capitalist, *entrepreneur*, boss or middleman of any description has come between them and the mill. In the form of better wages and fair semi-annual dividends they have received the profits that would have gone to a boss. And they have received larger profits in the aggregate, because their coöperative organization lessens the cost of production. It should be remembered that the \$7,000 of net property owned by the company is the smallest part of its success. Its shop is paid for, its working capital enables it to handle materials in advantageous quantities, and no further accumulation of company property would materially assist the thirty members in making 150,000 barrels a year. The principal success achieved in this as in all the coöperative shops has consisted in the larger annual income of the men and in the indirect advantages, material as well as moral, that flow from regularity and permanence in work. The Phœnix has certainly won an unqualified success. About two-thirds of its present members are married, and five own residence property. These men have not had the same advantages for acquiring homes as the members of the older shops, owing to the marked appreciation of property in the part of the city where their shop is located. Americans largely predominate in the Phœnix shop, Germans coming next in number.

THE NORTHWESTERN BARREL COMPANY was formed in December, 1881, by forty journeymen coopers who had gone out on a strike from Hall & Dann's, the largest of the non-coöperative shops. They profited fully by the experience of the older coöperative shops, adopting their organization without material innovations. Each member made a cash investment of \$15, and so the company began with a paid up capital of \$600, the maximum amount authorized in the charter being \$5,000. Three lots were bought at a cost of \$1,800, and a \$2,000 shop was built immediately. By assessments of two dollars a week deducted from wages, the capital grew rapidly. In the winter of 1882 the company put its entire indebtedness into the form of a five years' mortgage loan of \$2,500. It had accumulated some working capital with which to handle material, and had paid \$1,300 on its property. The land has greatly increased in value, and \$2,000 more has been expended in enlarging the buildings, for which no debt has been incurred. The property is now worth more than \$10,000, and is free from encumbrances, excepting the mortgage of \$2,500. Including value of machinery, materials and manufactured stock, the net assets of this company amount to fully \$15,000. In the fall of 1882 the membership was increased to fifty. Soon afterwards it was reduced to forty-five, and has remained at that number ever since. In the spring of 1886 there had been issued to each member seven \$50 shares of stock, nearly all of which was paid up. The shop supplies two mills of about average capacity, and is equipped with good machinery. It employs about fifteen outside men and boys. It has been a very harmonious and prosperous enterprise. Although only three or four of the original members remain, the efficient president, A. J. Palmes, is re-elected from year to year, and Thomas Flanerty is kept continuously at his desk as secretary. The president acts as shop foreman. The secretary as book-keeper, is as methodical and correct as any bank official. The treasurer spends about one day in the week in performance of his duties, and is allowed pay for his time. Otherwise he

works with his fellow coopers. The evidences of thrifty and economical management in this shop are very gratifying, and the courtesy and intelligence of officers and members must impress the visitor. Notwithstanding the ruinously low price of barrels, for the past year or two, the company has earned fair profits on the capital invested. In its earlier years, the market being favorable, its earnings were large. During a half year in 1882, when the capital was very small, the company paid its men excellent weekly wages and earned net profits of \$1,500,—nearly equal to the entire cost of its land and probably about 100 per cent. on the amount of paid-up capital. Not more than half a dozen of the forty-five members are unmarried, and a majority own their homes. From fifteen to twenty are Scandinavians, about half a dozen are Germans, several are Irishmen, and the rest are Americans. Though a little younger than the Phoenix, the northwestern shop has surpassed it considerably. It began with a larger membership and larger contracts than the Phoenix; but its greater prosperity is doubtless due to the fact that it chose a location more remote from the mills and from the old cooper shops. It went further down the railroad track and bought cheap lots, which have since appreciated handsomely. Its members were also able to secure residence lots in the vicinity at small prices and on favorable terms of payment. The greater distance from the mills has been in no respect disadvantageous. The "Phoenix" shop, on the other hand, was built upon land leased for ten years in a neighborhood where its members could not easily become the owners of residence property.

The five shops already described are all in south Minneapolis, contiguous to the Chicago, Milwaukee, and St. Paul railroad. The shop of the MINNESOTA BARREL COMPANY is in northeast Minneapolis, close to the tracks of the Duluth railroad. The company was organized in March, 1884, drawing most of its members from boss shops in the immediate vicinity, although several had been members of

other coöperative shops. It began with thirty members, each of whom invested \$50 in cash and received a paid-up share of stock. A shop was rented for the first year, but in the spring of 1885 three lots were purchased at \$750 each, and a building erected at a cost of nearly \$2,000. The shop was paid for in cash, and a first payment of \$500 was made on the lots. The net assets of the company now (October, 1886), amount to about \$7,000. In the winter of 1885-6 the membership reached thirty-seven. The company's business, however, failed to justify the retention of so many members, and thirteen voluntarily withdrew, accepting the company's notes at six months without interest for their shares. One has since withdrawn and the number of members is twenty-three. The shop has not introduced machinery. At the outset its members were nearly all single men; but married men have been buying them out one by one until they are in the majority. Six or more own their homes. The number is made up of Americans, Scandinavians, Germans and Irishmen. The president, J. W. Kline, was at one time president of the Coöperative ("Sixth Street") shop, and also served the North Star in the same capacity for a term. The president acts as foreman and has a salary of \$15 a week. The secretary, who is also treasurer, is paid \$8, and ekes out his income by making barrels at the regular piece-price wages. If this shop has not been as brilliantly successful as its founders had hoped, the depressed condition of the trade and the extraordinary pressure of competition sufficiently account for it. Its members have been incomparably more fortunate and prosperous than their fellow-coopers working in neighboring boss shops.

THE ACME BARREL COMPANY, the youngest of the coöperative flour-barrel shops, dates from May, 1885. Its members were working as journeymen for a proprietor named Stevens. There had been dissatisfaction on both sides and it was finally arranged that the men should organize as a coöperative association and lease the shop; Mr. Stevens being paid a

stipulated price for operating the machinery with which the establishment was equipped. Forty members entered the association, each taking a \$50 share of stock and paying as much cash as he could. Nobody advanced more than \$25, and some were unable to make any initial payment. A capital of \$625 was made up, however, and it grew by weekly assessments of \$2. The Stevens arrangement was only a temporary one. In August, three months after its incorporation, the Acme company bought five lots adjoining the Manitoba railroad tracks on the outskirts of the city for \$2,700, paying \$200 down and obtaining five years credit for the rest. Lumber was purchased and paid for, and the members built with their own hands an excellent shop at an outlay of only \$2,200, moving into it in September. In November, at the end of its first half-year, the company was able to make a dividend of \$600, which was all paid in on capital stock. The second half-year was begun with forty-nine members; but there was prospect of light work for the winter and a number withdrew, reducing membership to thirty. At present (October, 1886), the membership is twenty-five, and business necessitates the employment as journeymen of fifteen more. The shop has not yet invested in machinery. Three \$50 shares of stock have been issued to each member. A large majority of the men are married, and many of them have taken advantage of the newness of the neighborhood to acquire homes on advantageous terms. Most of them are paying on the installment plan. The success of this new company has been very marked, in view of the extremely hard times the coopering trade has experienced ever since its organization. Its affairs have been carefully and economically managed, and its members have worked energetically and unitedly.

All the shops hitherto described are engaged exclusively in the manufacture of flour barrels for the twenty-three Minneapolis mills. The TWIN CITY BARREL COMPANY works in an entirely different field. It does "tight" coopering of all

kinds. Organization was effected in January, 1886, with ten members, each of whom invested \$50 in one share of capital stock. The men were nearly all former members of the "Sixth Street Shop" (the Coöperative Barrel Company) and the by-laws of that shop were adopted with immaterial alterations. A profitable business was secured at once, and the membership was soon increased to fourteen, the shop being the largest in its line in the city. The men worked with spirit and ambition, willingly paying assessments of from \$3 to \$5 a week from wages of \$12, in order to build up capital and acquire the varied machinery necessary to the equipment of a large shop engaged in miscellaneous coöpering. In a few months each member had acquired three paid-up shares and the fourth had been issued. The shop was making a specialty of butter tubs, and was doing a good business in pork barrels, vinegar, cider and whiskey barrels, beer kegs, etc. It owned \$1,500 worth of machinery, practically all paid for. The rapid growth of the business was confidently expected. These expectations have not yet, however, been justified. Trade slackened during the summer, and more than half the members found temporary employment elsewhere, retaining their membership in the company, and sending in their weekly assessments. A visit paid the shop on October 6th found only five men at work. The company had recently suffered from a fire—machinery and completed stock being injured to the amount of \$1,200, of which only \$400 was covered by insurance. A more deplorable misfortune had befallen the association. The treasurer failed to appear one day, and has never been found. His disappearance cost the company only about \$75, which was of trifling consequence; but the man had been trusted implicitly, and his conduct made the first blot on the financial record of the coöperative shops, whose treasurers had handled millions of dollars in the aggregate without bonds and without a penny of defalcation. The treasurer of the Twin City Company was also treasurer of the Coopers' Assembly of the Knights of Labor. It is not believed

that his dishonesty was premeditated. He had fallen a victim to the fascinations of "poker," and it is believed that, having lost the money at the gaming table, and finding it impossible to replace it, he dared not face the consequences and ran away. His former associates have no harsh word to say concerning him. The Twin City Shop holds on courageously in spite of depressed trade and disheartening competition. It expects a winter business that will employ all its members, and is planning to build its own shop next spring, when its present lease will expire. Its line of business is more precarious than that of the flour-barrel shops, but it is unquestionably an advantageous field for coöperation; and with the increase of its facilities and the growth of the city, the Twin City Shop may expect enlargement and prosperity. Mr. N. E. Treat has been president from the first, and is now acting as treasurer,—a convenient arrangement inasmuch as the business of the shop takes the president to the places where bills are to be collected. The superior quality of the work done in this shop is admitted. As its facilities are improved it can compete for work at outside points and greatly enlarge the scope of its business. In this respect, obviously, it does not labor under the limitations of the flour-barrel shops.

THE SYSTEM AND ITS RESULTS.

In every aspect the coöperative flour-barrel companies of Minneapolis have been successful. They have been much superior in stability and strength to the other shops. Their form of organization really defies competition. Coöperators are workmen, and they work for wages. Profits are pleasant and desirable, but only incidental. They are not necessary to the success of a coöperative establishment in which labor is the large element and the investment of capital chiefly important as securing steady employment for the worker and relief from the uncertainties and exactions of employment at the hands of a boss. A coöperative shop can

run successfully for an indefinite period and market its product at absolute cost;—by which is meant the price of the materials plus the piece-price wages of the men and plus a small margin for general expenses and shop maintenance. It can do better than this. It can market its product at much less than the cost of manufacture in a non-coöperative shop, because its men in their capacity as proprietors and capitalists can for the sake of future advantage cut down their own wages as workmen to the point of bare subsistence and keep them there for a considerable time with much fortitude and cheerfulness and without danger of degradation. Many a business man in a critical time makes great curtailment of personal and family expenditures. He contents himself with the smallest possible wages in order to preserve his business capital intact or to gain some commercial advantage. Coöperators can do practically the same thing. A boss, hiring a force of journeymen, cannot reduce wages below a certain point without incurring the risk and expense of a protracted strike. This is no mere theory. The competitive superiority of the coöperative system has been thoroughly exemplified in Minneapolis. Some one will perhaps ask at this point why any “boss” shops remain in the city. The question is very pertinent; and to answer it will be to explain the nature of the hardest problem the coopers of Minneapolis have had to face,—a problem still unsolved.

Taking the country “by and large,” the coopering trade is declining. This is due in part to the manufacture of barrels in large shops by aid of machinery, reducing the number of coopers by 25 or 30 per cent. It is also due in considerable part to the use of sacks and boxes and other packages in relatively larger proportions. Minneapolis is one of the few points in the country where the coopering business has largely increased within a few years. Naturally the place became a coopers’ Mecca. Too many came, and severe competition ensued. The recent somewhat general introduction of machinery in the Minneapolis shops threw more men out of

work than the growth of the milling industry could re-employ. Bosses have taken advantage of the situation to make limited contracts with the mills for barrels at a very low price. Their policy has been to work their shops to the fullest capacity during the active milling season, paying the lowest possible wages, and closing entirely or at least discharging the bulk of their men during the dull part of the milling year. The coöperatives have been obliged to meet the low price of barrels in order to keep their contracts. Their superior organization has enabled them to make a better article than the boss shops at the lowest of prices. The chief sufferers are the journeymen in the boss shops, whose wages are very low and whose employment is very precarious. The coöperatives also suffer both as capitalists and as wage-earners. Journeymen and coöperatives together constitute a Coopers' Assembly of the Knights of Labor. Attempts have been made through that order to increase wages, but without much avail. The coöperatives cannot join the journeymen in a general strike because they have interests as capitalists. The journeymen cannot effect anything by separate action. Obviously the associated millers hold the key to this curious and complicated situation. If all the coopers in the city were journeymen, wages could be forced up by a general strike at a time when the daily demand of the mills was large and imperative. If all were coöperatives it would be comparatively easy to agree upon a scale of selling prices for barrels. The millers seem to think that it is to their interest to give a part of their contracts to the boss coopers. The coöperatives would fill those very contracts with a better article at a lower price. But if the coöperative method of production were allowed entirely to supersede the old boss system, as it would easily do if the law of the survival of the fittest could have uninterrupted action, the result might be an advance in the price of barrels. There would remain a healthy though not ruinous competition among the different coöperative shops, and there would always be the possibility of resuscitating the boss sys-

tem ; so that the millers could suffer no material disadvantage from permitting coöperation to prevail. They really prefer, I believe, to deal with the coöperative shops, acknowledging the superiority of their goods in workmanship and material and their greater reliability in business dealings. They have been disposed to deal fairly and considerately with the coopers, and always protest that they are willing to pay fair prices for barrels. But while the present competition between the two classes of shops remains, there seems little hope for the return of such wages and prices as prevailed a few years ago. Coopers now get from 11 to 13 cents wages for a hand-made barrel, whereas they used to get from 16 to 20 cents.

As the manuscript of this sketch is about to be forwarded to the printers, the journeymen coopers are in the midst of a strike and the situation is a most anomalous one. For months there had been unavailing attempts to secure the increase of wages to 16 cents. The coöperatives, of course, were as desirous as the journeymen to attain this object. About the middle of October the journeymen struck, and the coöperatives stopped work as if in accordance with a previous understanding. A strike of switchmen in the railroad yards, which came a day or two later, practically interrupted all movement of wheat and flour and forced the closing of the mills. The demand for barrels ceased simultaneously, and the coopers' strike was thus robbed of all its potency. With the full resumption of railroad traffic and the reopening of the mills a week later, the coöperative shops began work again in fulfilment of their contracts, the journeymen still holding out. There are now four non-coöperative shops,—a very large one equipped with machinery and employing about 135 men at the time of the strike, and three small ones without machinery, having in the aggregate about 65 men. The coöperative shops employ, in round numbers, 400 men as against 200 in the other shops. The most likely effect of the present trouble would seem to be the transfer of more business to the coöperative shops ; but nothing can be safely predicted. A very persistent attempt

has been made to secure the adoption of a pooling system. The plan proposed would have included all the cooper shops in the city. Business would have been apportioned among the shops upon the basis of their membership at the time of the strike, allowing one-third more business, relatively to membership, to the shops having machinery. One person, as agent of the pool would have been charged with the selling of barrels and the purchase of stock. The proposed selling price was 39 cents, which would justify wages of 16 cents. A board composed of representatives from each shop would have had control of the management. All the shops consented to the plan excepting the two oldest coöperative establishments, which were on November 1st to enter upon contracts for the entire supply of the Pillsbury mills, and were unwilling to sacrifice their advantageous prospects. I am inclined to believe that the pooling system would have been successful and beneficial, in view of the peculiarities of the market. As matters now stand, there seems no prospect, for the immediate future, of anything else than the continuance of harsh competition and the present low scale of wages and prices.¹

It is under just such depressed conditions, however, that the real strength of coöperation is best exhibited. If there is a penny to be made in the manufacture of barrels, the coöperatives make the penny. They use honest materials, and do thorough, honest work; but every man has the spirit of a proprietor and works for the good of the shop. There is no waste of material. Piecework, of course, in any case conduces to industry. This is especially true in the coöperative shops, where the men are in some danger from overwork. Nobody

¹Since the above was written, the strike has terminated successfully for the coopers. The proprietors of the four shops were asked to sign an agreement to pay on the basis of 15 cents for making hand-made barrels. The coöperatives paid the journeymen full wages for staying out, and the owners of the large shops at length followed the other "bosses" in signing the scale. Considering the difficult character of the situation, the victory is a most remarkable one.

is allowed to work more than ten hours, and every man is in his berth on the minute. Each places his mark upon every barrel he finishes, and is held responsible for defective workmanship. The organization is as close and economical as possible. The secretary,—who is also book-keeper and a very useful and busy person,—is in most of the shops the only man who does not perform manual labor; and in one or two shops he also works in his berth a part of the time. The president acts as general business manager and generally also as foreman. He supervises the counting and loading of the barrels hauled daily to the mills; he attends to the purchase of stock, and is never an idle figure-head. The directors are paid hourly wages for the limited time their official duties require. President and secretary are paid weekly salaries which are somewhat better than the average earnings of the members, but less than the earnings of the fastest workmen. Watchful interest keeps incidental expenses at a minimum.

The business methods of the coöperative shops are admirable and their credit is high. Manufacturers of coopers' stock find the coöperatives their most satisfactory customers. The Minneapolis banks seek their patronage and are ready always to give them accommodations. The books are open to the inspection of every member, and the semi-annual report fully reveals the condition of the company, so that there is no chance for suspicions and uncomfortable surmises. Everything is kept fair between older and newer members. Careful revaluations of the real estate are made frequently, and if there has been any advance it is equalized by crediting the stock account of each member. Depreciations and losses are squarely faced and made up by assessments. Consequently a retiring member withdraws a full and equitable portion, and an incoming member pays neither too much nor too little. Usually the new comer has bought out a retiring member and assumes his status; otherwise there is issued to him the amount of stock held by the other members, and he is charged interest (usually at the rate of six per cent.) until he has paid up his shares.

His semi-annual dividends, as well as his weekly assessments, are credited to his capital stock account. If he withdraws before his shares are all paid up, he receives precisely the amount that has accrued to his credit. The principle that all members shall hold the same amount of stock is thus firmly maintained. The retiring member is entitled by the rules generally prevailing in the shops to a six months' note drawing 5 or 6 per cent. interest if the company finds it inconvenient to pay cash. Very properly all gains or losses from advance or depreciation of property, from fire, or from the failure of any business firm or corporation are apportioned *pro rata* among the members. But the ordinary gains and losses in the business are distributed in proportion to the work done, i. e. to wages. The man who makes the most barrels not only receives the highest wages but also the largest dividend, if the business has been profitable. If the half year's business has been unprofitable, the man who has drawn the largest amount in wages is assessed accordingly to make up the deficit.

Coöperation has developed business capacity in the men which they were not aware of possessing because they had never tested it. The conduct of the shops from the governmental point of view may well encourage one's belief in democracy. Sound judgment almost invariably prevails. Tried and accepted officers are kept at their posts year after year, and there is a minimum of jealousy. Dissension is almost unknown. Differences of opinion are not infrequent, but the will of the majority is acquiesced in without strain. The system is an excellent discipline. It trains all the members to an understanding of ordinary business methods and transactions, conduces to moderation, patience and self-control and fits for the duties of citizenship.

It is worth while to remember that the three or four hundred men now stock-holders in the companies are only a small minority of those who have enjoyed the benefits of the system. These shops may be likened to schools continually sending out their graduates. It would be interesting to know the

number of different individuals who have at any time been members of the shops. My information does not cover that point; but I should venture to guess that the "graduates" are from five hundred to a thousand. Coopering is becoming a poor trade for reasons that have already been assigned. Declining demand for their product is forcing many coopers into other employments. Happy are those who, as members of a coöperative shop, retire voluntarily because they are in condition to better themselves. The company has served them as a compulsory savings bank. It has accumulated for them the ransom-money with which to buy their industrial freedom, and has trained them for the safe and successful use of that freedom. A recent English work on practical economics entitled "The Wealth of Households" very fittingly says: "The workman of our day is yet, to too great an extent, without either the wealth that provides for the morrow, or the wealth that is as a tool wherewith to make more wealth. . . . Let him learn to regard the possession of a year's subsistence in advance as what it truly is: The due purchase of his freedom as a member of the great industrial community to which he belongs. It is the lowest price, at which, in fact, that freedom can be had. It is the price which all who have it have paid, or had paid for them, in time past. It is not beyond his means; for thousands of his class are daily paying it, from means drawn wholly from weekly wages." To do it in so meanly remuneratively a trade as coopering must require regularity of employment and an uncommon tenacity of purpose; and the journeyman who ever gets six months ahead in the world is very exceptional. Still more exceptional is the one whose little start is not sooner or later sacrificed by loss of employment, sickness or other contingency. In Minneapolis coöperation alone has enabled the coopers to save. Those in the non-coöperative shops have not saved. The regular weekly assessment of \$2 or more withheld from wages, to which is added all dividends until stock shares are fully paid for, compels the member to

become a capitalist in spite of himself. If he remains two or three years he will retire with savings of several hundred dollars, and with the well-grounded habit of saving. A large number of "graduated" coöperative coopers have become farmers; and from a berth in a cooper shop to the proprietorship of a farm is a distinct advance. The farmer who is not too heavily mortgaged is more secure in his "freedom as a member of the great industrial community" than any other man. But to become a farmer something more than 160 acres of free land is necessary. Transportation of family and effects costs a round sum. A cabin must be built. Horses, a wagon, a plow and other utensils are absolutely necessary. The means of subsistence must be procured while the farmer awaits the maturing of his first crop. The wage worker who has saved a few hundreds may become a farmer. The one who has not, finds it a practical impossibility. Thus a sojourn of three or four years in a coöperative shop has made farmers of many coopers. Others have launched forth into small mercantile enterprises, well prepared to conduct them successfully. For in the coöperative shops every member becomes, more or less, a business man. Even those who do not serve their turn on the board of directors have the benefit of participation in the monthly meetings, and acquire familiarity with all the business details of the large establishment in which they have a proprietary interest. The value of the business education thus acquired can not easily be overestimated.

The coopers themselves are emphatic in saying that the moral effects of their coöperative movement constitute its highest success. It has unquestionably wrought a transformation in the character of these craftsmen. They are no longer a drunken, disreputable guild, figuring in the police courts and deserving the disfavor of the community. They have become a responsible and respectable class of citizens. Their sympathies are with law and order and public morality. They are Knights of Labor, with few exceptions, but are always opposed to violent or unreasonable methods; and their influ-

ence upon the whole body of Minneapolis Knights, which is very large, is strong and salutary. They find in their own craft that they must work ten hours a day in order to earn enough to support their families; and while for most excellent reasons they desire an eight-hour day in all industries, they clearly perceive actual difficulties and deprecate all rashness. One of their number, Mr. H. L. Bachelder, has been a member of the State legislature for four years, and his good judgment and absolute trustworthiness have made him a valuable member. A process of natural selection has brought together the best men in the coöperative shops, and their superiority in intelligence, morals and pecuniary responsibility over the journeymen in the non-coöperative shops is conceded. Coopers have repeatedly said to me that their coöperation has won its great success in the making of men. It has made them provident and temperate. It has replaced self-distrust with self-reliance and self-respect. To most men, sweet are the uses of prosperity. The acquisition of a bit of residence property, a proprietary and responsible interest, however small, in a prosperous business establishment, the receipt of wages and dividends sufficient to clothe wife and children neatly and respectably, will astonishingly improve four workingmen out of five in mind, in morals and in manners.

It may be worth while to remark that coöperation is not a religion with these coopers. They are not experimenting for the benefit of humanity. One of them might withdraw with his savings and set himself up as the proprietor of a boss shop without the slightest twinge of conscience or the remotest chance of being charged with the sin of apostasy. The president of one of the smaller shops had formerly been a member of one or two of the older and larger establishments, and withdrew to found a shop of his own in another town. He failed in the business, for some reason, and came back to coöperation in Minneapolis. And his case is not a solitary instance. Any cooper is ready to bid farewell to his berth, his mallet and his well-worn apron when something better clearly

presents itself. They believe heartily in coöperation because the system benefits and elevates workingmen ; but they are not on bad terms with society as they find it about them, and are entirely willing to step out of the ranks of handicraftsmen and wage-workers whenever opportunity permits. They recognize no impassable gulf severing industrial and social classes. Their advancement to the dignity of capitalists, employers or brain-workers is not a repudiation of the coöperative system, but the highest possible compliment they could pay it. In nothing is their sound American sense better shown than in their practical, every-day view of their form of organization as something exceedingly useful and valuable for what it has done and is doing, but not as anything sacred or worshipful. So far as I know, the movement has never had a social philosopher or a hobby-riding "reformer" connected with it, and nobody who ever thought of idealizing it into a cult.

On the whole, the movement has been a financial success. Mr. Jansen, now manager of the coöperative store, who was for ten years a coöperative cooper, tells me that in addition to his wages, which averaged decidedly better than those in the non-coöperative shops, he received dividends every year, amounting to \$250 in one or two years and never falling below \$50. These dividends were not reinvested in the business, for after reaching a certain point the shops need no further accumulations of capital. Mr. Jansen sold his shares for \$750 when he withdrew, and he had taken out from time to time a much larger aggregate sum in dividends. Mr. Curtis, of whom I have already said much, and who is now connected with the city police department, testifies to a similar experience and says that other of the older members, perhaps many, have drawn out more in dividends than they have ever paid in on their capital stock. For the past two or three years wages have been small, dividends light, and the money-making outlook discouraging. But money-making is not the real test of success in coöperation. The strength of the system in the face of bitterly hard times is its best commendation. Financial

prosperity lends a fascinating glamour to enterprises of this kind, but true success, which is moral in the broadest sense of the word, can best be estimated when that glamour is removed. The coöperative shops have developed men who can endure the test of hard times.

In conclusion, let me draw a very few generalizations from the results of coöperation in Minneapolis. It has proved superior in economy of production. All the flour-barrels used in Minneapolis would be made in coöperative shops if competition were allowed to settle the question. A coöperative shop has no "*entrepreneur*" or middleman to support; it is satisfied if its men make good wages; it turns out better work with less waste of materials, and it does not have to calculate any margin for such contingencies as loss through strikes or labor difficulties. Coöperation has proved that workingmen can do business safely and well, and that they have an instinctive caution and conservatism that causes them almost invariably to reject specious and unsound methods in business. Again, it has proved that workingmen can work together amicably, regardless of creed or nationality, and that the democratic organization of their industry teaches them to respect the rights and opinions of one another and to treat their associates with courtesy. It may be fairly inferred that coöperation is entirely applicable to the cooperating trade in other places where the demand is reasonably large and the market not subject to peculiar restrictions. Thus in flour-making cities like Milwaukee, St. Louis, Rochester and New York, coöperative cooper shops ought to find scope. In pork-packing cities like Chicago, Kansas City and Cedar Rapids there might be opportunity for coöperative pork-barrel shops. In cities and towns where cement and lime are important products extensive cooper shops are necessary, and coöperation ought to be feasible. In the whiskey region of Kentucky, in the sugar and molasses region of Louisiana, in the dairying districts of Illinois and Iowa where butter tubs are largely used, and in the great brew-

ing centers there would seem to be a field for coöperative coöpering. In small places the circumstances must be taken entirely into account. Barrels are too bulky to be shipped far, and coopers are dependent upon their local market. In villages where a single mill or other customer exists, the cooper shop is generally controlled as an appendage; and coöperation would be impossible without the good will of the miller or other customer.

The Minneapolis coopers believe as a result of their observation and experience that coöperation would be successful in a wide range of industries. Their own has the advantage of being a simple, old-fashioned trade, in which each man does the same work and finishes the product, and in which labor rather than capital has the chief relative importance. But they would not hesitate to recommend coöperation for more complicated industries. Boot and shoe factories, sash, door and blind mills, tailoring, furniture making and hat factories are lines of manufacture in which they suggest that coöperation is feasible. Where piece-work is possible the coöperative system is obviously more applicable; but it does not follow that it would be inapplicable in industries which require large subdivision of labor. It may be regarded as essential that each man have an equal voice in the management of the enterprise. It is desirable, but not essential, that all should be equal owners. Coöperation is easily seen to be less applicable in lines of production where capital has greater relative importance than labor; where quality of workmanship is of little or no account; where the speculative and uncertain elements in price are very large as in the iron industry; where the market is remote, variable and peculiar, and success is much more largely dependent upon commercial than upon industrial advantages and conditions.

A Western professor who has few superiors as a political economist and a sagacious observer of social phenomena, is accustomed to say that large success in coöperation must await "the development of the coöperative man." I believe that

all conditions are now peculiarly favorable to his development, and that his advent will be a realized fact almost before we are aware of it. The laws, customs, opinions and traditions that have given industrial society its present form are undergoing very material modifications. Meanwhile, the wage-workers in their labor organizations and in other ways are becoming trained for an improved regime. They are gaining the self-mastery, the mutual confidence and the power to act in unison that are marks of "the coöperative man."

II.

A COÖPERATIVE AGRICULTURAL COLONY.

Another of the enterprises which owe their origin directly or indirectly to the coöperative movement among the coopers of Minneapolis, is a coöperative agricultural colony. Its founder is Mr. J. S. Rankin, a life-long advocate of coöperation, and the patriarch of the movement in Minneapolis. For many years Mr. Rankin was a journeyman printer. Afterwards he was engaged in educational work, and in the publication at Minneapolis of a weekly paper, *The Minnesota Mirror*, "a journal of coöperative progress and industry." He is a poor man and the strength of his life is spent; but in old age he embarks with courage and enthusiasm upon an undertaking of great moment, and one which at the outset involves many practical difficulties and hardships. Agricultural coöperation has long been Mr. Rankin's favorite prescription for some of the worst evils of our present social system. He does not propose an ideal reorganization of society in which everybody shall have to take a place, and his views are not those of the Utopian school of communistic philosophers. But his observation and study have convinced him that the land is the best basis for coöperative production, and

that no other form of coöperative activity can be so successfully and easily managed, and so fruitful in good results as that of an agricultural community.

The drift towards population-centers is rightly viewed with solicitude by thoughtful men. The cities must always attract the strongest and most ambitious. But the intense and artificial life of the city wears out mental, moral and physical force. There should be freer circulation between city and country. The thousands whom the relentless struggle of city life is driving to the wall, ought to find escape into the country. They cannot go independently. They do not know where to go. They cannot acquire and cultivate land without capital. There are thousands of unsuccessful men even in our western cities within a few hundreds of miles of free government land for whom it is as impossible, practically, to become farmers as to become European emperors. They would gladly betake themselves with their families to the health, hope and peace of life in the country if the way were opened.

Mr. Rankin and many of the Knights of Labor of Minneapolis believe that coöperation may furnish the desired avenue from poverty, sickness and defeat in the city to competence, health and success in the country. They have determined to demonstrate it for their own benefit and for the encouragement of others. Their lack of means has prevented an imposing and showy beginning, but they have not shrunk with false pride from a humble start. The enterprise is in its first year and has only fairly entered upon the necessary stages of rude pioneering. It is not therefore to be estimated by its attainments or statistics, but by what, on the whole, appears to be its real potentiality. Let me describe briefly the history and nature of its organization, its physical basis, its personal and its present status.

In December, 1883, "The Coöperative Land Association" was organized by leading members of the Minneapolis Knights of Labor, and its corporate existence began on the 15th of March, 1884. The object of the association was said in its

articles to be the purchase and sale of lands and mortgages. Whatever may have been originally contemplated, it soon came to be understood that the association should furnish Mr. Rankin the land upon which to put into practice his plan of agricultural coöperation. The land company had been formed at a time when working men had few extra dollars to invest in general or uncertain enterprises, and it would probably have been dissolved but for its adoption of Mr. Rankin's project, and the earnest interest of several members in the materialization of that undertaking. Mr. J. P. McGaughey, District Master Workman of the Knights of Labor, Messrs. T. W. Brosnan and John Lamb, president and secretary of the land association, and still others, gave the matter their hearty assistance; and chiefly through Mr. Rankin's personal exertions the land company began in the fall of 1885 to gather some money into its treasury. Ten-dollar shares of stock were subscribed for by a large number of workingmen, to be paid in small periodic assessments.

The location of the prospective colony was fixed in the Mille Lacs region, in Crow Wing County, upon Northern Pacific railroad land, at a point about one hundred and twenty miles from Minneapolis and about the same distance from Duluth. A tract containing 253 acres was purchased and paid for with preferred stock of the road, making the cost of the land about \$2.50 per acre. It fronts upon Bay Lake, a beautiful sheet of water about three and a half miles long and two and a half miles wide. The land is finely timbered with oak, maple, hickory, ash and white walnut, with occasional openings. Definite arrangements have been made which give the land association control of contiguous land, and the domain of the colony practically includes five hundred acres. About \$2,500 has been subscribed by the share-holders of the Land Association, who are all, or nearly all, working men and Knights of Labor, and about \$700 of this amount had been paid into the treasury prior to the middle of October, 1886.

Meanwhile, Mr. Rankin had organized the Pioneer Coöperative Company, which was to settle upon the land; and an

agreement was made by which the colony was put in possession of the tract. A contract was drawn between the Land Association and the Pioneer Company under the terms of which the land was to be sold to the second party for its cost, \$675, of which \$100 should be paid on January 1st, 1889, and \$200 each succeeding year until principal and interest should be fully paid up, the debt meanwhile to draw 7 per cent. interest. The Land Association's rights, by contract with the railroad company, in other land adjacent, was also transferred to the Pioneer Company. The sale was made subject to the condition that the purchasing party should occupy the land as a coöperative colony and should conform to certain rules and arrangements which were made a part of the contract. Inasmuch as these specifications of the contract really embody the constitution of the colony, they should be produced in full. They are as follows :

"1st. No person of suitable age, character and ability shall be debarred from associating with said second party [the Pioneer Colony] in the undertaking, on account of his religious or political opinions.

"2nd. Said second party shall receive as members all persons of adult age, as rapidly as the circumstances of the Pioneer Coöperative Company may permit, who are able to fill useful positions in the company, and are willing to be governed by the rules and regulations herein set forth.

"3rd. That the land, or so much of it as may seem to be needed, and the use of which is now and hereby granted the aforesaid Pioneer Coöperative Company, is to be considered by both parties to this contract as inalienable, so far as present intention and mutual agreement can make it so; it being fully understood and agreed to that no speculative purposes having reference to the future sale of said land, or any part of it, enter as considerations into this agreement. On the contrary, it is fully understood that the land hereby granted is to be regarded as the home and heritage of generations of honest workmen, and that the present resources of the location, the fertility of the soil, the timber, the beauty of the scenery, and other natural advantages, are to be carefully preserved, and, if possible, increased. To accomplish this, it is hereby declared that not less than one-fourth of the land should be kept covered with timber; that in the use of timber for fuel, buildings or manufactures, sufficient care should be taken to preserve young and thrifty groves of trees, and that valuable and ornamental trees should be planted wherever there is room for them. It is also understood that any wholesale or unnecessary destruction of fish or game is to be discouraged.

"4th. The government of the company shall be purely coöperative, that is to say, every member shall be entitled to one vote and one only. A board of managers shall be chosen yearly by the resident members in good standing to whom all the affairs of the company shall be entrusted; provided, however, that the first board of managers shall be chosen by or with the consent of said first party [the Land Association].

"5th. The division of profits shall be on the coöperative principle, that a salary shall be given to each member and worker varying according to the time devoted to the duties of his position, the skill displayed, and the difficulty and importance of the work, and that net profits or losses are to be divided to each in proportion to his salary.

"6th. Village lots of one-half an acre or less, may be bought and held in fee simple, by members, or by resident citizens acceptable to the company—provided that no stables or other buildings to hold horses, cattle, sheep, hogs or fowls shall be erected on any such lots; that no manufactories shall be built thereon, and no places for the sale of intoxicating drinks shall be tolerated; it being considered expedient and necessary to provide as far as possible, against danger from fire, and to forbid, absolutely, everything that may lessen the beauty or healthfulness of the village.

"7th. A full and accurate account of receipts from the sales of village lots, timber, lumber, fish, crops, manufactured articles, and other sources of income, shall be kept by the said party of the second part, and reports made to the Board of Managers of said first party from time to time as may seem expedient or necessary to the Board of Managers of the Coöperative Land Association, and also in the same manner a full and accurate account of all expenditures.

"8th. The resources of said Pioneer Coöperative Company, party of the second part, shall be applied (1) To the support of resident members and hired workers; (2) to the payment of floating debts incurred with the consent of the party of the first part, and (3) to the formation of a sinking fund to meet maturing obligations. Receipts beyond this are to be divided as specified in the fifth section of this agreement.

"9th. All differences on questions at issue between the two parties to this contract not settled by mutual agreement, shall be referred to a board of arbitration, whose decision shall be based on principles of equity, and shall be final.

"10th. The Board of Managers of the aforesaid Coöperative Land Association shall have full power to adjudge and settle, without appeal, all questions that may be brought before it by the members or Board of Managers of the aforesaid Pioneer Coöperative Company.

"11th. Any agreement or regulation made by the second party to this contract with reference to the wages of its members shall be subject to the approval or disapproval of the Board of Managers of the Coöperative Land Association, so long as there are any debts due from said second party under this agreement. But should default be made in the payment of said

several sums of money, or any or either of them, or any part thereof or of any of the covenants herein to be by said party of the second part kept or performed, then this agreement to be void at the election of said party of the first part; and in case of default by said party of the second part, in whole or in part, in any or either of the covenants of the agreement to be by it kept and performed, it hereby agrees, upon demand of said party of the first part, quietly and peaceably to surrender possession of said premises and every part thereof, it being understood that until such default said party of the second part is to have possession of said premises."

The colony began in April, 1886, with seventeen men, women and children from Minneapolis, of whom seven were men of legal age and members of the Pioneer Coöperative Company. Two of the men were coopers and had for a time been connected with a coöperative shop. All had been unfortunate in the city, and not one of the families could have gone to the country on its own resources. Collectively, it would have been scarcely possible for the company to have made a beginning without the backing of the land association. But all had at one time or another some experience of farm life, and the colony was certain to be self-sufficient if once fairly begun. Two or three small houses of pioneer construction in the neighborhood were available for temporary shelter. Fish and wild berries were abundant. A small crop of corn, potatoes, beans and other vegetables was planted and has been harvested. Several gentlemen in Minneapolis advanced money to aid in the purchase of horses, implements and other absolutely necessary parts of a farming outfit. Progress must, however, be slow for a year or two from the lack of capital that is felt at every step.

Fortunately, the enterprise was not undertaken with any false expectations, and all who are concerned with it are entirely satisfied. The land is ample in extent, admirable in quality and situation, and held by secure tenure. More can readily be obtained when the colony can use more. The health and simple enjoyments of country life are preferred by the colonists to the conveniences which even the poorest people enjoy to some extent in the city. Food and shelter are

assured. There is plenty of work to do, but no necessity of over-work. There is happy immunity from the isolation and solitude that are the most objectionable feature of ordinary farm life on the western frontier. Thus, even in the rough pioneer stages of the experiment, the members regard their lot as a decided improvement upon that which they left behind them. They would say unhesitatingly that they had exchanged adversity for prosperity.

This attempt at coöperation is not in the hands of men who misapprehend the nature of the problems of organization and management they will have to solve. They have not attempted to solve them all in advance, but will leave some of them until circumstances give them practical importance. Coöperation does not meddle with the institution of private property. It is not a religion, and requires no renunciations. It does not in the least interfere with the distinctness and privacy of family life. It is simply a matter of business advantage and social convenience. Agricultural coöperation is not essentially different from coöperation in barrel-making. In Minneapolis there are men who are earning their living in a coöperative cooper shop, paying for their home through a coöperative building and loan association, buying their groceries at a coöperative store, and having their washing done in a coöperative laundry. Some of them perchance enjoy the advantages of membership in a coöperative neighborhood improvement association, obtain books and magazines from a coöperative reading club or library association, and so on. Many of them belong to societies and orders which have as their most practical feature a system of coöperative life and accident insurance. If these and other coöperative enterprises were centralized under one general management, it would make no practical difference to the man who belongs to them all, apart from the fact that it would probably minister to his convenience. In the coöperative farming village each member would acquire his house and lot through the instrumentality of the company, and would make his living by working at stated wages in the

productive enterprises of the company. He would receive his share of dividends from the surplus earnings of the company as in the cooper-shops. He would buy his goods at the company's store, and receive his share of the profits on the basis of the amount purchased, as in coöperative stores elsewhere. He would have all the liberty he could possibly have outside the coöperative system, and much more independence than any mere wage-worker. He could withdraw at any time with the amount of capital which had accrued to his credit in the company. It seems necessary to say these things because the idea of a coöperative agricultural colony so readily suggests communistic societies like the Shakers, the Icarians or the German inspirationists of Amana. Communism and coöperation are antipodal in principle. Communism denies the right of private property. Coöperation proposes to enable the destitute to acquire private property. Communism usually asserts control over family relations and it sacrifices personal liberty. Coöperation adds to the liberty of the individual, because it enables him to "pay the price of his industrial freedom;" and as I have shown in the case of the coopers, it supplies the conditions that are most favorable to the family institution.

From the standpoint of production the communistic farming communities are of course coöperative; and, in so far their experience has bearing upon the undertaking herein described. They have demonstrated the economic advantage of coöperative production in agriculture. Proficiency in specialties is developed. Small fruits, bee-keeping, dairying, and all the branches of that diversified husbandry which is admittedly the most profitable, flourish at their best on a Shaker farm; and my own somewhat careful observation of several communistic agricultural societies has convinced me that their economic success has been due to a coöperative organization of industry that is both logically and practically separable from their communistic theory and practice of distribution. The self-sufficiency and economic independence such a community acquires is remarkable. Various lines of domestic manufacture are

easily developed. In the winter months the ploughmen and teamsters are transformed into blacksmiths, wheelwrights, carpenters, broom-makers, etc. The women and children prepare the packages of garden and flower seeds for the spring trade. The superior system and economy of the productive side of life in one of these agricultural societies is unqualifiedly admirable. And yet, it is simply coöperation, and would be entirely possible were the communism absolutely eliminated. And this success has not been due to marked superiority in the leadership or in the average membership of these communities, but to the fact that coöperation in agriculture is comparatively easy.

Professor J. B. Clark, in his notable volume "The Philosophy of Wealth" says: "Complete coöperation has succeeded on the largest scale in agriculture. The economic motive for this mode of living is less urgent in this department of industry than in others. Agriculture is not yet centralized, as are manufactures, and the relations of the classes engaged in it are not strained to a dangerous extent." This is true; yet it should be said that coöperative farming is not expected primarily to appeal to the classes already engaged in agriculture. Mr. Rankin suggests it as a means by which those who are not farmers, and who cannot hope to become farmers through their own separate efforts, may acquire industrial security and freedom, and a healthful, advantageous environment, as tillers of the soil. Wise advocates of such a system would have no desire to strain its applicability. If it succeeds in the Mille Lacs region or anywhere else, the success must be due to the fact that the system is clearly profitable in the hard, worldly sense. Farmers already well established on their own land do not belong to the classes who have fundamental industrial problems to solve. And yet, from my own observation I am ready to affirm that in many cases if half a dozen or more frontier farmers would consolidate their holdings, sell half the land and pay off all mortgages, place their homes in a village group, organize as a coöperative company,

and farm their acres with centralized facilities, they would find the experiment highly profitable financially, and at the same time most beneficial morally and socially. I am informed that the families occupying homesteads in the vicinity of the colony at Bay Lake are quick to see the advantage of the coöperative system and that some have already offered themselves as members and their "claims" as additions to the colony's domain. In becoming members, they would, of course, either sell their land at an agreed price or take stock in the company to the amount of its value. I do not understand that all members are required to be equal stock-holders; but inasmuch as profits are not to be apportioned on the basis of stock and since each member has an equal vote, the tendency must naturally be towards practical equality of investment. It must be remembered that coöperation does not antagonize any other industrial system, and that a coöperative farming colony which should receive unsuccessful workingmen from the city, train them in agriculture, accumulate for them a little competence, and "graduate" them to make farms of their own on the public lands, would in each individual case have vindicated the advantage of coöperation. The internal economy of such a colony would not be seriously disturbed by a very considerable change from year to year in the personnel of its membership. In our country every neighborhood and every industrial and social group is undergoing constant loss and renewal in this way, and generally without serious impairment of its character or resources.

The *a priori* objection most commonly raised to such enterprises has to do with the difficulty of maintaining agreement and harmony. As Mr. Rankin wisely says, the only essential kind of agreement is the agreement to disagree. There must be perfect liberty of speech and of opinion and the will of the majority must prevail. A young cooper remarked to me one day that "there are a heap of things to put up with in coöperation." But, for all that, he regarded the difference between the lot of a coöperative cooper and that of a journey-

man cooper as tantamount to the difference between industrial freedom and industrial slavery. Coöperation is simply democracy applied to industrial organization. Democracy in political society is a system which always obliges some people to "put up with" things they do not prefer. But it does not follow that a Czar would be welcome. Those who find more unpleasant things to put up with in a coöperative organization than outside of it, have ready means of escape. I believe that the history of coöperative undertakings shows that governmental difficulties are not so great as people generally anticipate. The principle of arbitration is accepted by all coöperators, and the necessity of acquiescence in the will of a majority or in the dictum of a board of management or arbitration, is the first lesson to be learned.

I have written thus generally because, as already said, it is the potentialities rather than the present details of this coöperative enterprise that merit discussion at this stage.

The Pioneer Colony meets with fewer obstacles than it expected. It proposes to advance "without haste, without rest" making sure of each new step. No effort will be required to induce people to cast in their lot with the colony. The most prosperous of our cities contain hundreds, if not thousands, of worthy people who would be eager to go to the country under such arrangements as would assure them of a home and the plain but wholesome comforts of farm life, in exchange for their honest labor. As rapidly as circumstances will allow, the Pioneer Colony will diversify its industry and increase its membership. It has, however, put forth no glowing prospectuses, has made the world no promises, and has nothing for which to apologize in the meagerness of its beginnings. From the standpoint of those engaged in it, success has already been achieved; for it has greatly improved the material situation of all of them, and there is bright prospect that the improvement will continue. No sort of failure is easily conceivable that would leave them, all things considered, as badly off as they were before. The Minneapolis working-

men who constitute the Land Association are secured by their mortgage and can lose nothing. They will be repaid, with interest on their money. Sums advanced by several gentlemen of means have been of very timely service; but they have been incidental and not essential. This has been and is strictly an enterprise of poor men for the benefit of poor men; and whether its future success should be little or great, it will be due to the spirit of self-help among its own members and beneficiaries, and to the systematic aid and support of the Knights of Labor and workingmen of Minneapolis.

III.

COÖPERATIVE PROFIT-SHARING IN THE PILLSBURY MILLS.

In my account of the organization of the first coöperative cooper shop in the fall of 1874, I have explained that Mr. Charles A. Pillsbury, the head of the now famous Pillsbury milling firm, made the coöperative movement possible by agreeing to take the product of the shop for the supply of one of his mills. The Pillsbury mills principally use coöperative barrels, and the firm has always been held in high esteem by the coopers. The firm of Charles A. Pillsbury & Co., who have for some years enjoyed the distinction of being the largest flour manufacturers in the world, consists of Hon. Charles A. Pillsbury, Ex-Mayor George A. Pillsbury, Ex-Governor John S. Pillsbury, and Mr. Fred. C. Pillsbury. The second is the father, the third an uncle, and the fourth a brother of the head of the firm. No employers were ever more highly regarded by the men in their service than the Pillsburys have always been, and there has never been a disagreement of any character. The house has prospered, and its employés have prospered with it. Mr. Charles A.

Pillsbury has always been a student of the labor problem both in theory and practice, and his sympathies have been with the men who work. Yet he has never sought to pose as a philanthropist. His business sagacity has been broad enough to perceive that in order to attain the largest success in his line of manufacture, the most considerate and liberal treatment of employés was the soundest economy.

At the end of the milling year, September 1, 1882, Mr. Pillsbury determined to attempt experimentally a plan of profit-sharing which had for some time been taking form in his mind. A selected list of men in the different mills was made out, and each received a personal letter, of one of which the following is a copy :

“ Dear Sir :—

“ We have decided to give this year, as an experiment, to some of the leading men in our different mills, a portion of the net profits of the mill after we have credited ourselves with the interest on the capital invested.

“ We do this in the hope that everyone of the men having a share in this division will do his utmost in every possible way to effect a saving in the business, and that those who are not included this year will also be stimulated to do good work, because if the experiment is a success we shall be inclined to increase the number hereafter. We believe also, that while we shall be doing considerably better by our men, we shall lose little or nothing ourselves. None of you have any idea how much can be saved in running a flour mill if each man will do his best towards saving. The scheme is an experiment for this one year. Its continuance will depend upon whether we think it will pay us this year. We trust that every man included in this number will feel it his special duty to see that every other man does his work well ; and in fact, to see that everything is done in the best possible manner and with the least possible expense.

“ This apportionment will be made only to the men who stay with us during the year, and is subject to the provision that every man included in the arrangement shall perform his work and conduct himself in a manner entirely satisfactory to us.

“ We prefer that this matter be kept quiet.

“ Hoping to receive your hearty coöperation in the plan.

“ We remain,

“ Very Truly Yours,

“ CHARLES A. PILLSBURY & Co.”

The proposition was entirely voluntary on the part of the firm and was made to men who were already well content and better remunerated than men doing the same work in other milling cities. It was, of course, received with much satisfaction by those so fortunate as to be included in the scheme. From four to five hundred men are on the pay-rolls of the three Pillsbury mills, and about 25 per cent. of them participated in the profits of the first year. The list included, first, all men having positions of responsibility in the offices as well as in the mills,—nearly every man whose labor could fairly be called skilled or upon whose fidelity much depended, being in the number; and, second, there were included all employés however menial their work, who had been in the service of the firm continuously for five years. Having had no intimation as to the proportion in which the net profits were to be divided, the men could not of course well conjecture the amount they would receive at the end of the year. They could not reasonably have expected large sums in addition to their wages. Their surprise and pleasure may therefore be imagined when they received checks for sums averaging about \$400. The amount of profits distributed to employés at the end of the first year, in September, 1883, was in excess of \$40,000, and the profit-sharers were about one hundred men. The distribution was upon the basis of salary, and each man received a sum equal to about one-third of his total wages for the year. A bit of arithmetic will show, therefore, that the average income of the participants was increased from about \$1,200 to about \$1,600. The experiment produced results satisfactory to the firm as well as to the men, and the profit-sharing system was adopted as a fixed policy. The proportion of profit-sharers was made somewhat larger the next year, and there was, of course, an increase in the number of five-year men. In September, 1884, about the same aggregate amount was again distributed. In September, 1885, the profit-sharers were about one-third of the total force of employés, and the sum distributed was again approximately \$40,000. In the

three years \$125,000 was apportioned in this way, and the general ratio of profits to wages was maintained at about \$1 to \$3. The profit-sharing employés had in round figures received \$500,000 instead of \$375,000 by virtue of the arrangement. In September, 1886, each man received a circular letter from the firm, of which the following is a copy :

"We regret to inform you that we will be unable to make a division of profits to any of our employés for the past business year. The simple reason is that we have no profits to divide. We have failed to receive any returns for the capital invested, or for our hard work and anxiety. We are somewhat recompensed, however, in the reflection that most of our men have had steady work, and that we have been able to pay you your wages promptly and without any reductions, thereby enabling you not only to provide well for yourself and family, but to lay by something 'against a rainy day.'

"Now what of the future? We hope, with the aid of the strong arms and enlightened brains of our fellow workmen, to not only receive a fair recompense for our own work and capital, but to have something left over to divide among our men, and we hope to make that division more general than ever before. In order to do this are we not justified in asking of you to increase your efforts in our behalf if possible? that you, in addition to doing honest work yourself, will insist upon its being done by others who, perhaps, have not as honest intentions as yourself? Especially do we ask of you to see that the strictest economy is practiced in every direction, and that nothing is allowed to be wasted or misappropriated. We ask of you, also, to take no chances of accidents of any kind; that you immediately notify the proper parties of anything needing repairs, or of any dangerous place or machinery which can be improved. We ask no one to take any chances of loss of life or limb, beyond what are absolutely inseparable from the nature of our business and machinery. Any suggestions from any of our men as to additional precautions against accidents will be thankfully received and fully appreciated by any member of our firm. We also ask you to especially take every possible precaution against fire. It is the enemy most to be feared by both you and ourselves. In these dull times of milling a fire would permanently deprive you of a job with us, and also entail a great loss on ourselves. Let us ask you to be on the constant lookout for any possible danger from this source. Suggestions in this direction will be greatly appreciated by us. We are very proud of the past, that we have never yet made a reduction in wages. We cannot now afford to pay you the wages we could a few years since. Cannot you, with your increased experience and with additional diligence to our interests, make your services more valuable to us than ever before, and thus restore the equilibrium? If at any time you feel that injustice has been done you, do not be afraid to come to

our office and state your complaints. Coöperative sharing-profit is on trial at our mills. Many all over the world are watching the results. Fellow workmen, try and realize how much depends on your integrity and faithfulness. With the coöperation of every one of our employés we hope for better results than ever before attained in our business; without it, we see nothing promising for you or ourselves."

This frank communication was received in the best possible spirit by the men, who would have been both ungrateful and foolish to have questioned its sincerity or to have been dissatisfied with its explanations. The out-put of the Pillsbury mills for the year ending September 1st, was about 2,000,000 barrels of flour,—the largest in their history and more than one-third of the total Minneapolis product. But the milling of the crop of 1885 was unprofitable. The millers bought wheat early in the season at high prices and in very large quantities. The market declined steadily thereafter, and the price of the flour was reduced even below the normal ratio with wheat. Half of the Pillsbury flour goes to Europe, and new competition abroad is curtailing the profits on the American export. In keeping the mills grinding and in maintaining the full wages of more prosperous years the Pillsbury firm had done what entitled them to the highest regard and best service of their men.

Mr. Pillsbury is under no obligation to continue the plan of profit-sharing, but he assures me that he has no thought of abandoning it. He proposes so to enlarge the basis as to admit more than half the employés. Obviously, under such a system, the number of beneficiaries would in any case grow larger each year merely by operation of the five-year rule; and it is easy to believe that three or four years hence the great majority of the men will be profit-sharers. Mr. Pillsbury is emphatic in saying that he regards the system as advantageous to the firm. In few industries do intelligence, stability, skill, zealous interest and absolute fidelity on the part of the entire corps of employés count for as much as in milling. Bad results caused by negligence are hard to trace

to the culpable individual. The habitual attention to one's own work and to the work of one's fellows that is developed by a personal interest in the business is a great advantage in the modern manufacture of flour. By infinite pains and great enterprise "Pillsbury's Best" has been made the standard flour of the world, and the maintenance of its enviable reputation depends much upon the workmen in the mills. A more permanent body of men cannot be found anywhere. No man is ever capriciously discharged, and none ever leave voluntarily except to take a higher position elsewhere. The Pillsburys operate three mills,—one having a daily capacity of 7,000 barrels (the greatest in the world) and the other two having a maximum capacity of 2,000 and 1,500 barrels respectively. They require therefore only three head-millers. But their mills are the great school in which men are trained to the mastery of the methods of modern milling, and a large proportion of the leading head-millers of the country have been graduated by the Pillsburys. Mr. Pillsbury says that from fifty to seventy-five head-millers in important mills elsewhere have been selected from among his men. The fact illustrates the superior character of his employés as a class; and the advantage of the profit-sharing system in keeping such a body of men together is obvious.

For proper business reasons Mr. Pillsbury has never made public and has never communicated to his men the proportions in which the net profit is divided between the firm and the employés. As in all profit-sharing arrangements, interest upon the capital invested is first deducted. Under the circumstances no bargain or agreement with the men is either necessary or desirable, as might have been the case had the system been adopted as a compromise at a time of disagreement about compensation. The Pillsbury system could not possibly be otherwise than satisfactory to the men, who receive, irrespective of their profits, the highest wages paid anywhere for work of their kind.

From the employers' standpoint I have Mr. Pillsbury's assurance that the system pays. I need not say to students

of the labor question that this assurance is the most important thing I have to communicate on this subject. If Mr. Pillsbury from his abundance and his generosity maintained this system; at some willingly made sacrifice—a thing of which he is perfectly capable—it would be extremely creditable to him individually and exceedingly fortunate for his employés individually; but it would not help to solve the labor question at large. Unless experiments in coöperative profit-sharing prove advantageous enough to recommend the system to employers for business reasons, the system must be counted a disappointment and a failure. Few employers are in position to do business on any system that handicaps them in the fierce struggle of competition. Milling for the markets of the world is a business in which competition is keen and margins are very close. It is worth while to have the testimony of the most successful merchant miller of this or any country, that coöperative profit-sharing is a satisfactory and advantageous system.

Mr. Pillsbury would not have it understood that the system is wholly free from incidental annoyances and disadvantages. Improved pay, unexpected prosperity, and the sense of secure tenure in a fortunate position sometimes spoil a workman, and he grows negligent and inefficient. Mr. Pillsbury has been obliged to discharge a few such men. But they are exceptional. The profit-sharing system does, on the average, secure better service. Mr. Pillsbury also finds a disposition, chiefly outside his own men, to pass exacting criticisms upon a firm who have the reputation of being model employers. The discharge of one of their men excites a vast deal of comment, when no notice would be taken of the matter if some other employer should dismiss a man for precisely the same reasons. It is, however, quite natural that this should be so. The profit-sharing system seems to confer upon men something like a vested interest, with which they are extremely indisposed to part; and to be discharged from a profit-sharing establishment carries with it a peculiar disgrace. Profit-

sharing is a step towards the recognition of what Professor Henry C. Adams calls a new kind of incorporeal property,—the right of a workingman to his work. The fact may not be perceived, but it is true, nevertheless. No employer who will go so far as to make his men partners in the profits of his business would feel justified in discharging them capriciously or arbitrarily. I can well believe that such employers might readily consent to submit the discharge of certain classes of their men to the approval of a board of arbitration. Without further elaboration of the matter, it is clear that the profit-sharing system gives men a firmer hold upon their places, and that this fact at times subjects the employers to annoyance and captious criticism. But it is to be remembered that these inconveniences are merely incidental to those very features of the system from which its great advantages arise.

IV.

THE MINNEAPOLIS COÖPERATIVE MERCANTILE COMPANY.

Most of our American cities have witnessed one or more short-lived and inglorious attempts at mercantile coöperation, and Minneapolis is not an exception. What is commonly called "distribution coöperation" requires the most humdrum patience and conservatism at the outset. Attempts to achieve rapid and brilliant results are almost invariably disastrous. Under the stimulus of the Granger movement, a number of coöperative stores were organized in Minnesota in accordance with provisions of a statute enacted in 1870, providing for the charter of coöperative associations. Their course was speedily run. One was established in Minneapolis as late as perhaps 1879 or 1880; but its share-holders lost their small investments. They had not acquired the habit and spirit of coöperators.

The coöperative coopers, having found that they could make productive coöperation a success, have long believed that they might easily overcome the comparatively small difficulties involved in the management of a retail store. At length, in the summer of 1885 they determined to begin. They were fortunate in undertaking the enterprise with no vague notions or false expectations. They did not open their store until they were thoroughly prepared. There was nothing groping or experimental about it. It was simply a sober, business undertaking by men in humble circumstances, who saw in it sufficient mutual benefit to make the thing worth while, who were familiar with the history and methods of distributive coöperation elsewhere and who knew exactly how to proceed. The incorporation was effected September 15th, 1885, the articles being signed by eight members of the three or four larger coöperative cooper shops. The company began business with seventy-five members, all or nearly all being coopers. A neat little brick building then in process of erection on a corner in the vicinity of the cooper shops was rented at \$30 a month, and the store opened its doors for trade on the 9th of December. It was originally required that each member should make an initial investment of \$10 for one paid-up share of capital stock; but this was afterwards modified in view of the hard times and the desirability of larger membership. A cash capital of about \$700 was secured to begin with. Every member was required to subscribe for three shares, and allowed to take five. The initial payment was reduced to \$1.25. Weekly assessments of 25 cents were levied and credited as payments on the shares. The company began with the ordinary stock of a small grocery store, although its articles of incorporation provide for the inauguration of mercantile enterprises on a large and varied scale and for the establishment of a "self-supporting home colony," wherein "may be exemplified, in a practical way, the coöperative idea of protection, distribution, education and government."

The *modus operandi* does not differ essentially from that of successful coöperative stores elsewhere. The institution is in

the hands of an annually elected Board of Managers, consisting of a President, Secretary, a Treasurer, and six Directors. Quarterly meetings of the stock-holders are held, at which reports are heard and distribution of profits made,—thus necessitating a quarterly inventory of stock. From the gross profits is first deducted all expenses of management, including rent, salaries of store-keeper and clerks, etc. Allowance is then made at the rate of 10 per cent. per annum for deterioration of stock. Next, interest is allowed at the rate of six per cent. per annum on the paid-up shares of capital stock. The net surplus is divided among the members of the company *in proportion to the amount of their purchases at the store during the quarter.*

It is left for the quarterly meeting to determine whether any profits shall be allowed to outside patrons, and it is also left to the direction of the meeting to carry a portion of the profits to a reserve fund. The English societies are accustomed to return to non-members a definite proportion of the net profits accruing from their purchases, and also in some cases to allow employés a small percentage in addition to their salaries as a stimulus to active and interested service. It remains for the Minneapolis Association to make these provisions when circumstances indicate their desirability.

Membership has increased to 125. The paid-up capital amounts (October, 1886) to about \$1,500. The business is hampered by the smallness of its working capital. Owing to the very low wages earned in the cooper shops, the managers of the store have not rigidly enforced the payment of the weekly assessments. They have preferred to keep the members and their trade. Sooner or later each member will have managed to pay for his three shares. That the store is satisfactorily managed may be inferred from the fact that about half its patronage now comes from non-members. Gross sales for the first quarter amounted to about \$3,000, and after paying all expenses including interest on the paid-up shares and making the required allowance for deterioration of goods, there

remained a net profit of about \$50. The second quarter, ending in July, showed sales of about \$4,000 and a net profit of about \$140. For the third quarter, ending in October, I was assured that the sales would amount to \$6,000 and the surplus profits to a sum between \$200 and \$300.

The members have not only (1) bought their goods as advantageously as they could have done at any other store, and (2) received interest on their small investment of capital, but, (3) a moment's calculation shows that they have received back 7 per cent. on all their purchases of groceries, allowing for the fact that non-members have done half the buying and have received none of the profits. This is a most satisfactory showing. Comparing net profits with capital invested, it will be seen that the store is clearing not less than 50 or 60 per cent. a year. Mr. S. R. Jensen, who is in charge of the business, has had ten years' experience as a coöperator in the "Sixth Street" and Hennepin County Barrel Companies, and is admirably qualified for his present position. He serves the Association for \$60 a month, and is assisted by two clerks at \$12 and \$7 respectively per week. The two delivery wagons are run without extra help. It would be hard to find another store managed so well on so economical a basis. Sales are made strictly for cash, and the company obtains cash discounts in its purchases from jobbers. The safest business principles rule everywhere. Mr. Jensen gives security in \$3,000 bonds, and the Treasurer, who is a prominent member of the Sixth Street cooper shop, is also under bonds. The company has secured the agency for Minneapolis of the goods of the Coöperative Tobacco Company of Raleigh, N. C., and of the Railroad Tobacco Company of Covington, Ky., which is also on a coöperative basis.

It employs a man who sells these goods on commission, and it makes a moderate profit. It has been desired by the company to undertake the coal business; but satisfactory arrangements are not easy to make. It may be reasonably expected that the operations of the Minneapolis Coöperative Mercantile

Company will steadily increase in volume and variety. The last inventory showed a stock worth \$2,000 and fixtures worth \$700. This day of small things is not to be despised. A good foundation is being laid for enterprises that will be described with more imposing arrays of figures. On the strength of the success thus far achieved, it is proposed to wage a propaganda for new members. It ought to be possible to quadruple the membership and increase the volume of business six-fold during the year 1887. The benefits of membership will be much greater, of course, when the establishment has added new departments and is prepared to supply all ordinary family purchases. There is no reason why this Minneapolis store should not prove as successful as those in England.

V.

A COÖPERATIVE LAUNDRY.

The description of an enterprise which is still in the tentative, experimental stage, is not a satisfactory task. Between the thing as preconceived and the meager reality there is usually a painful contrast. From the complacent standpoint of achieved success it is rather pleasant than otherwise to look back upon feeble and forlorn beginnings. But it is only as reminiscences that such beginnings are attractive. I could wish, for literary purposes, that the Coöperative Laundry Company of Minneapolis were either older or younger,—either a plausible and attractive plan or else a complete and admitted success. It is in fact engaged in a struggle for existence. If it lives a year longer it will probably have survived its worst vicissitudes. This movement, like that of the Coöperative Mercantile Company, is a direct outgrowth of coöperation among the coopers, and owed its beginning to the encouragement of the Knights of Labor, who in Minne-

apolis are warm advocates of coöperation. The company was organized about the 1st of March, 1886, and it adopted the by-laws of the cooper shops in so far as they could be made applicable. It chose for its central office and work-rooms a place in the vicinity of the larger cooper shops. The membership was twelve, of whom seven were working women and five were men. Shares of stock, to be paid for in small installments, were in \$10 amounts. Very little capital was necessary for a beginning. Members were of two classes, the working and non-working. Workers were to be paid wages, and all members were to share in a *pro rata* division of net profits, provided the non-working members should hold one more paid-up share than the workers.

Mr. Joseph Wiltbank, a coöperative cooper, who was first made Secretary and Treasurer, was afterwards made manager and is now, by a somewhat informal arrangement, also the acting president. He is paid a salary equal to about the average wages he could earn at his berth in the cooper shop. The other working members are the women. The wages of the washerwomen are \$1.00 a day, and of the ironers \$1.25. They work ten hours, with a part holiday on Saturday.

At first the laundry did not do satisfactory work, and that fact has been of serious disadvantage. Under Wiltbank's administration there is no longer any complaint on the score of the quality of the laundrying, and the amount of business seems to be increasing. The price list is the same as that of other laundries in the city. About a dozen branch offices exist in different parts of the city, and they are allowed 15 per cent. for their services as agents. More than half the patronage of the establishment comes from the coopers,—chiefly from the unmarried men, the others generally maintaining the old-fashioned home institution of washing day. As yet there have been no dividends. Three shares of stock have been issued, of which two are paid up, and the working capital is somewhat in excess of \$200. The patrons see no particular advantage in becoming share-holders as yet. The large steam

laundries of the city are able to do work at a smaller expense than the coöperative, with its primitive methods, and it cannot expect to earn dividends to any considerable amount until it is equipped with modern machinery. Such equipment will cost about \$750, and the coöperative is determined to secure it next spring. An effort will then be made to increase the number of members, and the persons acting as agents in the branch offices will be required to become share-holders.

Coöperation seems to be particularly applicable to the business of laundrying; and if this Minneapolis enterprise perseveres until its proper equipment shall have been secured, it ought without further difficulty to become a permanent success. The delivery wagon and branch office system render the locality of a laundry wholly immaterial to its regular patrons, and a moderate degree of enthusiasm and push would secure many share-holders among people whose laundry bills are much larger than those of the coopers or other workingmen. The coöperative system in this industry would, I believe, secure superior results. The proprietary interest of all the workers would conduce to permanence, to the acquisition of skill, and to the constant care without which there cannot be that promptness and uniform excellence of service upon which the reputation of a laundry is built up. I am inclined to believe, also, that a coöperative laundry can be run at considerably less actual expense than one non-coöperative, and can thus have the advantage in competition. Obviously this business can be conducted upon a plan uniting the advantages of productive and distributive coöperation. On the one side it appeals to share-holding patrons as a mutual benefit enterprise, and upon the other side it appeals to the workers as affording them a most advantageous form of productive organization. There are large profits in a well-conducted laundry, and those profits ought to be shared among workers and patrons. I know of no business in which, from the nature of things, coöperation seems more feasible and more likely to succeed well, than in the operation of a large laundry.

VI.

THE DUNDAS COOPERS.

The typical journeyman cooper is a nomad. He has worked on flour barrels in Rochester and on whiskey barrels in Louisville. If he is not so great a traveller as the journeyman printer, it is only because his earnings are smaller and he must therefore do more tramping and less riding. Why he has not carried away and scattered enough of the seed of Minneapolis coöperation to germinate in other communities of coopers, I am at a loss to say. I have information of only one coöperative cooper shop outside of Minneapolis, although to my knowledge there has been some agitation of the matter elsewhere in the State. The Dundas Cooper Shop Company, of Dundas, Rice Co., Minnesota, has the honor of being older than any but one of the present Minneapolis shops. It was organized on the 1st of January, 1876,—less than two months after the Coöperative Barrel Company began operations in Minneapolis.

The organization of the Dundas shop was the same in most essential respects, as that of the Minneapolis shops. There were thirteen original members. The number is now reduced to eleven and fixed at that limit. The capital invested is small, because a large amount is not required to carry on the business of a small shop in a village of less than a thousand inhabitants. The price of the barrels which the Dundas coopers sell to the merchant millers whom they supply, is regulated by the Minneapolis quotations; and consequently they have felt the pressure of hard times in the past two years. But, for nine or ten years the shop not only earned good wages but made profits every year, which were divided, as in the Minneapolis shops, in proportion to the amount of work done. How large those profits were I am not informed; but either prosperity, or some other cause has made membership remarkably stable. There have been only four withdrawals

and two admissions since the shop was organized; so that nine of the present eleven members were among the original thirteen. All the members are married men, and all own homes. Three are at present carrying on other lines of business, retaining their interest in the shop and their right to resume work, but foregoing all profits, of course, while not earning the wages upon the basis of which profits are divided.

A membership interest can be transferred only to the company. The shop usually employs journeymen in varying numbers according to the demand of the mill it supplies. Sometimes none are needed, and sometimes fifteen or twenty are given work. The average is about half a dozen.

The organization of the shop is simple but effective. The presidency is merely a nominal office, the Foreman being the general manager and business representative of the shop subject to a board of directors.

The Secretary keeps a set of books and issues all orders for money, which are countersigned by the Foreman. The latter also keeps accounts which are a check upon those of the Secretary. These two officers are required to furnish each month a statement of the month's work, of profits or loss, and of the condition of the business. The Foreman receives a fixed compensation of \$14 per week, and is frequently kept in the office for several successive years. The adjustments of profit or loss are annual, on the 1st of April, instead of semi-annual as in the Minneapolis shops. The general effects, morally and socially, of coöperation at Dundas are, I believe, regarded as very excellent. The members of the shop, it should be said, are all Americans excepting two, a Scandinavian and an Irishman. The first foreman was A. Hedreen, and the present one is L. L. Babcock. O. F. Wilson is president and A. Moy-nihan secretary. The annual product of the shop is about fifty thousand barrels.

VII.

COÖPERATION AMONG THE PAINTERS.

For some years the house painters and decorators of Minneapolis have been interested in coöperation, and have talked more or less seriously of undertaking it. A Painters' Union, organized in perhaps 1883, gave opportunity for discussion of the matter, and it was particularly favored at that time by Mr. J. U. Woolsey, whose efforts to inaugurate a coöperative shop seemed at one time about to be crowned with success. But there was disagreement about details of organization, and the plan fell through. Mr. Woolsey, who was in his earlier years a journeyman painter, but has long been the proprietor of a shop, is an intelligent and earnest advocate of coöperation, and has not ceased to urge its application in his own trade. The formation of a Painters' Assembly of the Knights of Labor in the winter of 1885-6, and the unusual degree of interest shown by the Minneapolis Knights as a whole in the subject of coöperation, gave a fresh impulse. Again Mr. Woolsey's ideas seemed about to have practical effect. He desired to organize a coöperative shop with twelve members at the outset. Each member would be expected to subscribe for three \$25 shares of stock, one share to be paid up at the beginning and the other two by assessments. Men were to be classified and paid wages varying according to their class. Grainers and sign painters would be allowed, for instance, \$3 a day, and regular house painters would be divided into a first and second class, their wages being \$2.50 and \$2 respectively. They would be expected to classify themselves, subject to the readjustments of a board of arbitration. Profits would be divided per capita and not on the basis of wages. Mr. Woolsey believes that where in coöperative enterprises proficiency and skill are duly recognized in the scale of wages, there should be no further emphasis of differences and that all members should fare equally in the distribution of profits as in the holding of

stock and in the government of the association. The point is an interesting one and admits of discussion; but I am inclined to agree with Mr. Woolsey. In the cooper shops, each man receives the same pay for making a barrel. Profits may advantageously be treated as increasing the piece-price wages, and each man would properly receive in proportion to the number of barrels he has made. But no such plan is possible where men are paid by the day; and the simple, per capita method of dividing profits might well prove most satisfactory, at least in such a trade as painting. Not to digress further, Mr. Woolsey's twelve men were found; but before they were ready for action the season was well advanced, they lacked the necessary means, and they feared that the new shop might not be able at once to secure sufficient work. It is not unlikely that the spring of 1887 may find Mr. Woolsey's shop transformed into a coöperative establishment.

But, meanwhile, another painter, Mr. E. M. E. Pease, had succeeded in establishing a coöperative shop, which was incorporated on the 29th of June, 1886, as the "Painters and Decorators Coöperative Association of Minneapolis." The active painting season was already well spent, the summer's work was largely contracted for by the other shops, and the new establishment expected no immediately brilliant success. Twenty painters were enrolled as subscribers for stock, with the understanding that half of them would keep their places in other shops as journeymen, not assuming active membership before the opening of the next season, until which time no payments were to be expected from them. The active members took each a \$50 share of stock, upon which they made initial payment of \$10, and have since been paying monthly assessments of \$5. Large capital is, of course, not essential. The new shop has been fortunate in securing work, and is regarded already as an established success. Thus far it has done general house-painting, all its members working at the same lines of the trade, although it includes men qualified as sign-painters, frescoers and paper-hangers. With the coming season it is pro-

posed to undertake all these special branches of the trade. At present the men allow themselves \$2.25 a day as wages, of which they draw only \$2.00, leaving the twenty-five cents to accrue on their capital stock account. The business is in the hands of a board of managers consisting of the President, Treasurer and three Directors, who appoint a Foreman and a Secretary. The foreman has charge of the men and attends to the carrying out of contracts, working himself with the rest. The secretary is the business man of the company. He keeps the books, has charge of contracts, collects bills, canvasses for work, and represents the shop in its outside relations. Mr. Pease, the prime mover in the enterprise is secretary, Mr. S. G. Comce being president.

The economic advantages of their coöperative organization are already apparent to these painters. They earn average wages, and find themselves accumulating a margin of profit for distribution at the first semi-annual settlement. They find themselves at an advantage in bidding for jobs of work because, if necessary, they can dispense entirely with profits. Journeymen painters must expect to lose a large amount of time in the course of a year. Perhaps the greatest economic advantage these men find in the coöperative system is the steadiness of employment it secures. Their shop plans carefully to keep its members fully employed; and this signifies a large difference between the year's income of a coöperative and a journeyman painter. Further, the men have the satisfaction of knowing that they are building up a business of their own. They take an unwonted pride in their work. Their personal responsibility incites to the most thorough and honest workmanship. Because they are working for themselves and have the full benefit, they naturally work more expeditiously. These elements of superiority in coöperation give it competitive advantages which must sooner or later prove decisive in its favor.

Mr. Pease, like all practical coöperators, is disposed particularly to emphasize the importance of the moral results of the system. He finds that it produces a state of harmony among

the men that is never seen in a non-coöperative shop. Amicable relations are seen to be a practical necessity. The men realize the mutuality of their interests, and the fact induces courteous conduct. The responsibility of doing business for themselves, and the new sense of stability have an excellent effect upon men inclined to be reckless or improvident. The sense of being one's own master and of working for one's own interest is socially and morally elevating. Mr. Pease says that his associates would not be induced to go back to the old system, because they find a larger freedom and manhood in coöperation. One of the men declares that he will never again work as a journeyman so long as he can get one meal a day in coöperation. Fortunately, his three meals a day, the year around, are much more secure under the coöperative system.

There seems no reason to doubt the permanent success and the gradual extension of coöperative organization among the Minneapolis painters and decorators. The beginning has been made; and it is auspicious though humble. I believe that there will be at least four or five coöperative paint shops in the city within two or three years.

VIII.

COÖPERATIVE BUILDING ASSOCIATIONS.¹

The form of coöperative enterprise that has attained far greater results in the United States than all others combined, is that of the well-known and almost invariably successful "building and loan association."

The remarkable success of these associations in Philadelphia and throughout Pennsylvania has attracted wide attention.

¹ Acknowledgments are due to Mr. O. L. Colburn for assistance in the collection of facts respecting the building and loan associations of Minneapolis and St. Paul.

It is less generally known, however, that what I may call the Philadelphia plan of coöperative banking has been extensively adopted in western towns and cities. Several of the most flourishing building and loan associations to be found anywhere in the country are established in the neighboring cities of Minneapolis and St. Paul; and they have been instrumental in providing many hundreds of workingmen's families with pleasant homes of their own. The people of Philadelphia enjoy the distinction of being more comfortably housed than those of any other large city in the world, and it is said that in no other city do so many families own the houses in which they live. The agency of the building and loan associations in producing this fortunate state of things has been very great. Among western cities Minneapolis deserves a first rank as a city of homes. The separate, cottage style of house prevails, the city containing comparatively few solid residence blocks. In no other city, not excepting Philadelphia, are the homes of the people so spacious and so attractive architecturally. Visitors to Minneapolis frequently ask where the poor people live. It is not easy for them to realize that the picturesque and roomy cottages with their bay-windows, ornamented gables, and bits of lawn are the homes of workingmen. It is highly interesting to observe the influence of local habit and sentiment upon the external forms of a city's growth. The newcomer soon discovers that it is the ruling ambition of the average Minneapolitan to have a home of his own and as good a one as he can afford. For several years, about three thousand houses have been built annually, a large proportion of them to be occupied at once, or eventually, by the owner himself. The significance and relevancy of these facts will be readily apparent to any student of the social, political and economic problems of the modern city. It is immensely important in the period of a city's early and most rapid development that the proportion of tax-paying, property-holding citizens should be as large as possible, and that the ownership of a home should come to be the custom and the fashion

among those who are called and who call themselves workingmen. Not a little of the present remarkable prosperity of Minneapolis is due to the fact that it is a city of homes and property-holders, and in that fact lies perhaps the best assurance the city has for future progress and prosperity. In one way or another these workingmen who own homes have made the purchase with savings from their wages. Very many have bought from real estate dealers on the installment plan or on long time. They have mortgaged a portion of their earnings for years to come for the present enjoyment of a family homestead; and the arrangement is a powerful incentive to sobriety, industry and thrift. By paying what seems to be a rather extravagant monthly rent for a few years, the occupant acquires unencumbered title, the payments cease, and he is comparatively a man of affluence. With the habit of saving firmly fixed, he goes on accumulating substance. Of all the various plans in vogue for acquiring property by small periodic payments from current wages, the building and loan associations provide the best. They enable their members to buy or build at cash prices, in which there is large advantage. The borrower repays the association in monthly payments usually extending through about eight years, and therefore amounting to something like one-half of one per cent. When he has finally squared his account with the association, he finds on careful calculation that he has paid little or no more for the use of the money he borrowed, than the interest rate his wealthy neighbor would have had to pay for a similar amount of money on ampler security.

If he had bought on the monthly payment plan from a real estate dealer the installments would of course have been very much greater than a fair rent for the property. But the association has enabled him to become a proprietor on payments in many cases not exceeding the rental value. Let us assume that a man who has paid \$18 a month as rent, takes twelve shares of stock in a building and loan association. The matured value of a single share will be \$200, and of the twelve

\$2,400. The association makes him a loan of \$2,400, taking out a premium of, we will say, 40 per cent. The man actually receives \$1,440, with which he buys the house he lives in (and which might have cost him \$2,000 if he had bought on the installment plan). He pays the association 6 per cent. interest on \$1440, in monthly sums of \$7.20. Meanwhile he is accumulating a sinking fund, as it were, for the extinguishment of the principal; and the debt will reach maturity when this fund, which is earning compound interest and extra profits as energetically as possible, has grown large enough to meet it. He pays into this fund \$12 every month in the guise of dues on his twelve shares. In about eight years his shares will have reached the full value of \$200 apiece, \$2,400 altogether. His debt was \$2,400 and is now cancelled. He has paid in \$1,152 on his shares. The association had kept every dollar at interest for his benefit by making monthly loans of all the money in its treasury; and compound interest counts up rapidly. His interest and dues amounted to \$19.20 a month, or slightly more than the rent he had formerly paid, and at the end of the eight years he is the owner of the property and free from debt. Perhaps most of the readers of this sketch are familiar with the methods and advantages of the special form of savings institution described, yet I may be pardoned for assuming that other readers will desire to know what building and loan associations are, as well as the mere fact of their existence in Minneapolis. The supposed transaction which I have just described is not idealized at all. Any man with a clear head and a fair knowledge of arithmetic can satisfy himself that there are good profits to be derived from the immediate investment of the aggregate periodic savings of a large number of people, when there is practically no expense connected with doing the business and when every depositor gets the full benefit of the earnings. If five hundred persons have subscribed for an average of ten shares each, they constitute an association which has \$5,000 of new money to loan every month from dues, besides the interest paid monthly in

advance on all outstanding loans. The money goes to the highest bidders on the pledge of a sufficient number of shares, and with satisfactory security on the property in which the money is to be invested. There are always members who wish to withdraw all, or part of their money before their shares reach maturity. A part of the accrued profits will be sacrificed to the association by such withdrawal, and the shares of remaining members will the sooner reach the accrued value of \$200, or whatever sum has been fixed for their maturity. The principles of the system are simple and intelligible, while its details are somewhat complex and technical, varying in different associations. With these minor variations and technicalities I need not concern myself particularly here. The associations are fundamentally alike. They enable poor men to borrow money for legitimate investment at ordinary rates of interest and pay it back in easy installments. They are the most profitable kind of savings-bank for those who do not wish to borrow on their shares and can afford to leave their accumulations untouched until the shares mature. It is, I believe in the future that Minneapolis is to derive the most benefit from this kind of coöperation, but the results already accomplished are not insignificant. Eight associations are in existence, and they merit some description.

The most important is the "Hennepin County Catholic Building and Loan Association" which was incorporated in August, 1874. None but Catholics are eligible to membership, and its chief support has come from the Irish-American element. Among its founders and first officers were a number of young men who have since become prominent in business and politics. Mr. Matt Walsh, now county treasurer, was its first president. The approved Philadelphia system was adopted in all essential details. The business of the association is done at the regular meeting on the second Saturday evening of each month, when dues of \$1 on each share are required to be paid. The matured share is \$200, and business is done on the basis of a nine year period. Eight years

was originally fixed, but in 1881 the longer term was adopted, which simply meant that profits did not accumulate quite so rapidly as had been anticipated. A new series of shares is issued and offered to subscribers, old and new, every year. In its earlier years the association did not do a large business; but since 1880 it has developed rapidly and is now the most flourishing in the State. Over sixteen hundred shares were taken of the twelfth series, the last one issued, and for three or four years previous the number averaged perhaps twelve hundred. The total receipts of the association for the year ending July 31st, 1886, were \$112,726.47, and its accumulated assets amount to more than half a million dollars. For the current year its receipts will approach \$10,000 every month. The first four series have matured, and the fifth, with 226 shares outstanding, has nearly reached the maximum value of \$200 per share. The rules of the association do not allow the loan or "sale" of money at less than 30 per cent. premium, but the rule is not necessary as bidding is always active and the money is all kept loaned very closely at premiums averaging from 40 to 45 per cent. Interest is charged at the rate of 6 per cent. on the net sums received by borrowing members. The borrower is given a month in which to provide security satisfactory to the board of managers and to perfect arrangements. If he is building a house, he is permitted to borrow on the property in installments as the progress of the structure warrants. Members who have not borrowed on their shares and wish to withdraw the money they have deposited are not allowed interest for the first twelve months. From the twelfth to the thirty-sixth monthly meeting interest is reckoned at 7 per cent. After the third year withdrawing members are allowed the net earnings on their shares less 4 per cent. Borrowing members who desire to pay back their loans before their shares mature are, in the language of the by-laws, "charged with the total amount of loan and premium, and credited with one-ninth of the premium for each whole unexpired year up to the ninth year, together

with dues and interest, or profits on said dues, as the case may be." This "recognition of unearned premiums," as it is called, in dealing with borrowers, is an important feature of the Catholic Association. In the annual reports of the Secretary, Mr. J. C. Scallen, a financial statement is made in which premiums on loans, so far as they have not yet been earned by the association, are treated as liabilities. On the same principle, members who borrow on shares which have passed the first year are credited with a rebate for each year that the series has run. The premium is regarded as something like a compound discount for the term of nine years; and if the borrower obtains money for a shorter period, his premium is correspondingly reduced.

The association began in 1874 with eighty-five members. Since that time its average increase of membership has been one hundred and thirty-five, although for the past five years the increase has been much greater than that. The total number of certificates issued to members up to date has been 1691. The receipts for the first month, in August, 1874, were \$137.50. For August, 1879, they were \$1,555.50; for August, 1880, \$2,439.60, and for August, 1886, about \$9,000. Such has been the growth of this association. A growing business does not increase expenses. Last year's handling of over \$112,000 cost the association only \$1,000. Its treasurer is under bonds of \$15,000, its attorney of \$10,000, and its banker of \$20,000. There is no opportunity for defalcation, every detail of the business being open to all the members, and the money being loaned every month so closely as to require the frequent over-drawing of the association's bank account. To meet expenses, every member pays five cents per month on each share, making the dues \$1.05. This brings in a larger amount than is necessary, but the surplus is invested with the other funds for the benefit of the association.

A principal object of the association was to encourage thrift and develop business habits and financial responsibility among the Irish-American workmen of the city. It has from the

first been under the patronage of the Catholic Church, a parish priest being an *ex-officio* member of one of the standing boards. The success of the association in its moral and social, as well as in its business aspects, has been very marked. It should be said that although the membership is principally Irish, it includes American, French, Polish, Bohemian, and German Catholics. Some of the members are men of wealth and high business standing in the city; yet probably a majority of these men have attained their business prosperity since the association was founded, some of them certainly owing their success to assistance obtained from it. I am told, however, that 99 per cent. of the members are people whose dues are paid from hard-earned savings, nearly all belonging to the wage classes. Assuming that loans average from \$1,000 to \$1,200 apiece, and that practically all of them are used to secure homes (either by purchase, building or the payment of threatening mortgages), the association's income is now large enough to provide about one hundred homes a year. It has thus far made nearly six hundred loans, of which the large majority have in fact been so used as to assist workingmen's families to the ownership of the houses they occupy.

The secretary of this association could cite many interesting cases of families that have been especially benefitted. A few years ago a thriftless man of unsteady habits was persuaded after much solicitation to become a member. He was supporting a family on \$60 a month. He took five shares, and at the outset experienced much difficulty in saving the \$5.25 for monthly dues. His habits improved, however, and he subscribed for five more shares the second year. He increased his stock to fifteen shares the third year, to twenty the fourth year, and to twenty-five the fifth year, confessing that he now found it easier to pay the dues on the twenty-five shares than originally on the five. He drew \$1,800 from the association and paid it out for a home. Mr. Scallen tells of a man who was supporting a wife and five children on \$1.75 cents a day. He held a house and lot on which there was a mortgage of

\$500, drawing ten per cent. interest. The semi-annual interest payments were extremely hard for him to meet. He yielded to much urging and joined the association, taking ten shares of stock, on which he borrowed the net sum of \$1,120. He paid off the mortgage and with the \$620 that remained he built a six-room addition to his three-room domicile, renting five rooms to another family for \$18 per month. His monthly payments to the association, including interest, aggregated \$16.10, or \$1.90 less than his income as a landlord. This clear surplus was enough to pay taxes. The man found himself carrying his shares and paying for a large house without drawing a penny from his earnings. It is unnecessary to say that he is an ardent believer in building and loan associations. These instances are given because they show the system in actual operation. Others might be given which illustrate the benefits derived by "non-borrowing" members, whose money in the Catholic association earns about twenty per cent.

A careful calculation would show that the borrowing member has generally paid about eight per cent. for the use of the net sum he received. The premium with which he was charged has been counterbalanced by the profits earned on his monthly payments. In Minneapolis the borrower has in most cases been a great gainer from the rapid advance in real estate values. Frequently his property has doubled or trebled its value, and it would have been to his advantage to borrow for investment, even if he had paid much higher rates for the money. It should be said that the association has had no experience of losses from loans, and that foreclosures are practically unknown.

The Mechanics and Workingmens Loan and Building Association of Minneapolis was founded a few days later than the Catholic association, and began business in September, 1874, with a membership of forty-five, Mr. George A. Brackett being its first president, and Mr. Selah Mathews, the present city clerk, being secretary. Its general plan is similar to that already described. It issues a new series of shares every six

months, however, instead of every year, and eighteen series are now outstanding and in force, five having matured in an average period somewhat exceeding nine years. There have been issued 1,382 stock certificates, and about 5,300 shares are now in force, held by 750 members.

The business of the association has grown largely within three or four years, and its receipts may now be safely estimated at from \$80,000 to \$90,000 annually, making it one of the most important associations in the country. Its business is done very economically, an annual tax of 20 cents per share producing more than enough to pay all expenses. While the Catholic association charges the borrower six per cent. on the net loan, the Mechanics' collects eight per cent. for the first year and diminishes the gross interest charge thereafter from year to year by deducting an amount equal to eight per cent. on the sum paid in for regular dues. There is no arrangement which fully recognizes the principle of unearned premiums, although the managers are empowered to make equitable settlement with a borrower who desires to pay his loan before the maturing of his shares. All persons are eligible to membership. Probably ninety-five per cent. of the members are mechanics, workingmen and clerks. The association has made 275 loans, of which 250 have built or secured homes. A few have enabled men to engage in remunerative business enterprises. The average premium bid for loans has been $42\frac{1}{8}$ per cent., and the final cost to borrower is about eight per cent., while the "free holders" (those whose shares remain unpledged to the close of the series), gain about twelve per cent. annual compound interest upon their savings. Not a dollar has ever been lost by the association. Only three mortgages have been foreclosed, and these were immediately redeemed. The money of the association never lies idle in the treasury, the demand always being greater than the supply. The fact that the 500 shares, to which the last series was limited, were all taken immediately without the aid of any kind of advertisement indicates the vigorous condition and excellent outlook of the associa-

tion. Its present officers are well known citizens, Mr. Samuel L. Brearley being president; ex-Postmaster O. M. Laraway, secretary; County Auditor F. S. McDonald, treasurer, and Mr. Charles Robinson, attorney.

The Minneapolis Mutual Building and Loan Association was also organized in 1874, a few weeks later than the two described above. It began with about one hundred members, and has about that number now. It is said to have been fairly successful, but for some reason it has not developed a large business. Wealthy men own its shares in larger proportion than those of the other associations, although the great majority of members are workingmen. I have been unable to secure any statistics of this association; but it may be taken for granted that in twelve years it has built a good number of homes for workingmen. It is conducted upon what is known as the "Gross plan," as are the "Catholic" and "Mechanics" associations, that being the most approved Philadelphia form twelve years ago when these three societies were organized.

The newer Minneapolis associations, five in number, are all conducted upon what is termed the "installment plan," which is preferable for its simplicity. Few of the members of the old associations thoroughly understand the wherefore of the system, and it is said that officers and managers in some instances have not altogether comprehended it, although its practical operation offers no difficulties. But the installment plan is readily intelligible. The borrower receives the full amount for which he bids, and pays the premium in monthly installments. The time basis is usually fixed at eight years and four months,—just one hundred months; and the premium is paid in one hundred equal installments. The shares are fixed at fifty dollars, and the monthly dues at twenty-five cents. Borrowers receive \$50 on each share and pay six per cent. interest in monthly installments, which amounts also to twenty-five cents per share. Under this system the premiums obtained are generally much larger than under the other, from the fact that they are not deducted in advance but paid in easy

installments. A premium of 50 per cent. would amount to \$25 on the share, to be paid in one hundred monthly installments of twenty-five cents. Thus the borrower would have to pay at each monthly meeting twenty-five cents dues on each share, twenty-five cents interest, and twenty-five cents premium. A subscriber for twenty shares borrows their full maturing value, which is \$1,000. Let us assume that his premium is 50 per cent. His dues, interest and premium installment will cost each \$5 a month. In one hundred months he will have paid \$1,500, his shares will have matured and the obligation is cancelled. Apparently the loan will have cost the borrower only six per cent. In reality, however, it has cost him considerably more; for he pays six per cent. on \$1,000 through the entire period, while he has paid back in the form of dues and premium installments one-quarter of the principal at the end of twenty-five months, one-half at the end of fifty months, and three-fourths at the end of seventy-five months. When a loan is repaid before the shares mature, all accumulated deposits, with the earnings, are deducted from the amount. As in the other associations, the interest money and premiums from the borrowing shareholders, with fines and transfer fees, all kept at compound interest, make up the earnings. The non-borrowing member who has twenty shares pays \$5 a month for one hundred months or \$500 in all, together with fees for incidental expenses amounting to about \$15 for the entire period. He receives \$1,000, and the reader may calculate the rate at which his savings have compounded. The perfect lucidity of this installment system wins it favor. The borrower finds it more convenient also because he knows just what sum will be advanced on his shares (provided his security is approved), while under the other system his net loan will depend upon the premium he finds it necessary to bid.

The Turners' Building Association (*Turner Bau-Verein*) of Minneapolis was organized in October, 1877, on the installment plan which I have just described, by the German Turners

of the city. Its incorporators and first corps of officers were well-known German citizens, Mr. I. Monasch being the prime mover. The meetings are conducted in the German language and the by-laws and printed statements are in German. The association began with about forty members and now has one hundred and eighty. The outstanding shares number 2,341, in sixteen series. This association divides the premium into ninety-six instead of one hundred monthly installments. Its assets at present are nearly \$42,000. The German population of Minneapolis owes much to the good results of this association, a great majority of whose members are paying their dues out of wages of from \$6 to \$15 a week. Two hundred loans have been made, of which at least one hundred and twenty-five have been for the purpose of securing homes. According to the plan of reckoning that is in vogue, a premium of 68 per cent. makes money cost the borrower 8 per cent.; and this is about the average premium paid. The rate is really higher, as I have shown. In cases of withdrawal from the association, six per cent. is allowed on the amount of deposits for the first year, and an increase of one per cent. for each additional year.

This association has never foreclosed a mortgage, or suffered a loss. Its expenses are very light. It has the favor and confidence of the German residents, and may reasonably expect its sphere of usefulness to increase.

The South Minneapolis Building and Loan Association was established in August, 1884, with sixty members. It has now one hundred and seventy-five members and three thousand shares of stock (maturing value \$50) in force. Its time basis is one hundred months, and its business is done upon the installment plan as described. Twenty-six loans have thus far been made, all of them for the securing of homes. There is eager competition for money, and the premiums range from sixty to ninety per cent. The assets of the association are now about \$10,000, the members are principally working people, and include a number of servant girls who carry ten

shares apiece and deposit monthly savings of \$2.50. A boy earning \$5 a week has twelve shares. The secretary some time ago received a letter from Aspelund, Goodhue County, making inquiries. As a consequence, a thousand shares of the association's stock are now held in that village. The officers and members of this association are chiefly of Scandinavian nationality.

In 1884 was also organized the North Minneapolis association with seventy-five members, a number which has not greatly increased. It has thus far done a comparatively small amount of business, but there is prompt demand for its loanable funds at good premiums, and it is therefore a successful organization. Dr. P. M. Hall is its Secretary.

The Central Building and Loan Association was organized in the spring of 1885, its members being chiefly clerks, bookkeepers and men engaged in mercantile pursuits. Its membership has increased from seventy-five to one hundred and twenty-five, and about three thousand \$50 shares of stock, issued in semi-annual series, are in force. It is too young to have accomplished large results, but it has already assisted eighteen members to secure homes or establish themselves in business.

The East Side Association is the most recent of all, having been founded in August, 1886. But it bids fair to become one of the most successful in the city. It is on the installment plan, with quarterly issues of new series. The majority of the members are employed in sash and furniture factories and planing mills. Two thousand or more shares have already been taken by eighty-five members. Mr. P. M. Endsley, who is an ardent believer in the advantages of building and loan associations is the secretary of this association, and also of the Central and the South Minneapolis societies.

About one thousand homes have thus far been secured for workingmen in Minneapolis by the building and loan associations of the city, and their operations have only fairly begun. It may reasonably be estimated that two hundred and fifty

more families will be domiciled through the agency of the associations in 1887, and that the number will increase a hundred a year thereafter for some years to come, producing results not only of great economic consequence, but of inestimable moral and social value.

IX.

THE BUILDING SOCIETIES OF ST. PAUL.

Although this brochure purports to give account of coöperative enterprises having their location or origin in the city of Minneapolis, it will not be amiss to record briefly the remarkable success of coöperative building and loan associations in the neighboring city of St. Paul. Nowhere else in the West have such societies accomplished results so notable. As against eight organizations in Minneapolis, there are forty in St. Paul; and as their average age and size are greater in the latter city than in the former, their tangible achievements are much more than five times as large. It requires time for such institutions to become thoroughly domesticated and established in the life of a city. So long as they remain something of a novelty the average workingman will be suspicious of them, and will join the movement doubtfully, if at all, and after much argument and solicitation. Pennsylvania offers some especially favorable conditions for the success of building and loan associations, but they flourish by the hundred in that State chiefly because an experience of more than two generations has made the people familiar with their advantages, and has accustomed them to invest their savings through that channel. In Philadelphia, with its four hundred of these associations, the thrifty workingman who is not a shareholder is rather exceptional. Their success in St. Paul is quite as complete, all things considered, as in the Pennsylvania cities. They have become an

accepted local institution, destined to play a growingly important part in the building up of the city and in the development of thrift and providence among wage-earners. Minneapolis is a newer city than St. Paul, and a smaller proportion of its working people have settled down to the humdrum, old-fashioned process of getting on in the world by the careful accumulation of small savings. St. Paul has a very large German element; and the Germans seem to adopt the building and loan association more readily than any other class. There are comparatively few Germans in Minneapolis. No single association in St. Paul is so large and flourishing as the "Catholic" of Minneapolis, and perhaps there is none so large as the "Mechanics." But the movement as a whole is many years more advanced in St. Paul than in Minneapolis. Three Minneapolis associations date back to 1874; but they were comparatively small and obscure until after 1880. The movement in St. Paul began in 1869, and ten years later when the city had a population of nearly forty thousand there were twelve associations, some of them being large and flourishing. The State census of 1885 gave St. Paul a population of 110,000, and in about half a decade the building associations have increased to forty.

Space and the purpose of this sketch would not justify a separate description of these forty societies. It must suffice to give a few general facts. The average monthly receipts of the associations are conservatively estimated at \$2,000, or \$80,000 altogether. This means an annual accumulation of nearly a million dollars, most of it saved from the earnings of the wage class or of people in very moderate circumstances. The men best qualified to express an opinion would say unhesitatingly that by far the greater part of this money would not have been saved at all, but for the associations. More than \$10,000,000, it is claimed, has thus been garnered by the building societies of St. Paul, and invested in such a way as to confer the largest benefits upon thousands of families. No one will dispute the modest assertion that this sum of \$10,000,000, saved from the

earnings of the people and invested in homes for the people, has benefitted St. Paul more greatly than twice the amount invested in any other way. The present total membership of the associations can hardly be less than six thousand, representing fully one-fourth of the families of the city; and the average annual payments per member, including dues, interest and premium installments, exceed \$150. More than a thousand loans a year are made, and the great majority of them are invested in residence property. The estimate that from eight to ten thousand homes in St. Paul have been in whole or in part secured to their owners with money advanced by the building societies might seem extravagant, but I must conclude that the facts will bear it out. The houses of workingmen in St. Paul are smaller and plainer than those in Minneapolis, but a much larger proportion of them are owned by the occupants, for which the credit belongs to the societies of which I write.

The idea of the association was brought to St. Paul from Philadelphia by Mr. Theodore Sander, in 1869. To his enthusiasm and constant efforts, the success is due in no small part. He is now the secretary (and therefore chief executive officer) of three of the oldest and largest societies, the "Workingmen's," the "St. Paul Workingmen's" and the "Franklin." Mr. J. W. McClung, who is secretary of the "St. Paul Mutual," the original society, has been prominently identified with the movement from the beginning. Mr. A. V. Teeple is another of the foremost apostles of building societies. He is the secretary of the "North Star," "State," "Fort Street," and "Real Estate and Building" associations, and the president of another. Mr. E. R. Bryant is another successful organizer, and is to-day the secretary of not less than seven associations, including the "Capital City," "Columbia," "Rice Street," "Seven Corners," "Railway," and two West Side societies. Mr. E. T. Williams, who is the president of the "Railway," is secretary of three important associations, the "National," "Capital" and "Minnesota Savings." Prominent bankers and financiers are made treasurers, Mr. Albert Scheffer acting in this capacity for three

societies, Mr. Herman Scheffer for three, Mr. Louis Fischer, Jr., for six, Mr. William Dawson for two, and so on. Mr. Adolphus Moore is the president of three societies and Mr. C. H. Lienau of two. It is the wise policy of the societies to make their ablest business men officers and directors; and a full list of the men now serving in these capacities would include a large number of gentlemen known in business circles throughout the Northwest. Ninety-five per cent., however, of the total membership of the societies is composed of people in humble circumstances. It is not an unusual thing for a prominent banker to leave his business and go out to some suburban addition to examine property offered as security for an association loan of \$400 or \$500. These business men appreciate the value to the city of the building societies, and do all that in them lies to enhance their usefulness and prosperity. They are always ready to aid in furnishing security for loans to worthy workingmen who desire to build homes.

The large majority of St. Paul associations conduct their business on the installment plan. No association is made up exclusively of a class or nationality, although many have a distinct character. Thus the "Railway Loan Association" is composed almost entirely of railroad employés. Its fifteen directors are nearly all officials in the railroad offices. It has enabled a large number of railroad men, train employés, yard men, and shop hands as well as men in the offices, to build homes. They thus become permanent citizens, and their character as employés is distinctly improved. Another society, the "Real Estate and Building," is composed principally of young business men. Several are made up chiefly of Germans. In general, the foreign elements take more readily to the plan than American workingmen, and they constitute the major part of the aggregate membership. A number of the societies, as their names indicate, belong to particular neighborhoods or streets. All of them prefer to make small loans rather than large ones, and to have the stock distributed among as many members as possible. Many of them restrict the amount

which one person may hold, and several limit the size of loans to \$2,000. In nearly all the societies loanable funds are promptly taken when offered. Premiums sometimes reach 80 per cent. in the installment societies, and the gains are sometimes at the rate of 20 per cent. a year. The average premium, however, is lower, being from 60 to 70 per cent., and money costs the borrower, according to the societies' plan of reckoning, about 8 per cent., while the shares of the non-borrowing members are gaining in value at the rate of 12 per cent. annual compound interest. The losses of the societies have thus far amounted practically to nothing, and the foreclosure of mortgages has been of rare occurrence.

To these general facts nothing further, perhaps, needs to be added. Even this very meager notice is, so far as I am aware, the most extended account that has ever been made of this most potent and interesting factor in the development of the wealthy, prosperous and beautiful city of St. Paul.

The building associations do their work so unobtrusively although so incessantly that it is perhaps not strange that hasty observers should have failed to recognize their agency. St. Paul's recent statistics of population-growth, new house-building, and growth of taxable wealth have, like those of Minneapolis, been phenomenal; but I have never seen so much as a cursory mention made of the workingmen's coöperative building societies as a factor in this splendid material progress. It would be superfluous at the end of this sketch to express it as my own opinion that they have constituted one of the most essential factors. But even more important than their mere material achievements for the city and for their members individually, have been their social and moral value in counteracting the tendency of a city population to wider divergence between rich and poor and to the development of a proletariat class. The typical American citizen is a freeholder, and has a home which is his castle. His independence and his virtue depend not a little upon his worldly condition. The building society is above all things to be commended as a

conservator of the home and family institutions that underlie all our national greatness and power.

X.

UNSUCCESSFUL ATTEMPTS AT COÖPERATION.

Commercial statistics prove that the great majority of business undertakings result in failure. That a due proportion of enterprises begun on the coöperative plan should have a short and inglorious career ought to be expected. In most coöperative projects there are great difficulties to be overcome. It is a simple matter to draw up the articles of incorporation and to adapt by-laws from those of some other coöperative organization. Everything looks attractive on paper. The projectors are usually inexperienced and over-confident. They are impressed with the theoretical advantages of coöperation, and expect large results almost at the very outset. They are not prepared for the period of neglect and obscurity, of small internal disagreements, of business mistakes and of every kind of unforeseen annoyance, that is likely to come when the first flush of novelty has disappeared. To succeed in coöperation men must bear and forbear, persevere, and learn wisdom by their mistakes. Courage to hold on through the first year or two of blundering and adversity is the price of permanent success.

An account of coöperation in Minneapolis would not be complete or altogether honest if it should omit allusion to attempts that have failed or are moribund. Without entering into much detail, I will mention several instances. The narrative of coöperation among the coopers contains reference to three or four short-lived coöperative shops. In one sense these may be listed as failures. But although the organizations were disbanded, the members were received in a body by one or another of the larger shops, and failure therefore was formal rather than

actual. At least two or three coöperative retail stores have failed, for the same reasons assignable for the early shipwreck of nearly all the coöperative mercantile ventures ever launched in this country. There has been lack of good management on the one hand and of the right kind of purchasing members on the other. False expectations have led to easy discouragement. The existing Minneapolis Mercantile Company is in the hands of men who do not expect impossibilities and are willing to fulfil the conditions upon which success depends. It profits by the experience of its ill-starred predecessors. Several coöperative printing offices have been established in Minneapolis, none of which have succeeded. A well known establishment calls itself the "Coöperative Printing Company," but it is not now managed on the coöperative plan, if it ever was. Experience in job printing offices does not prove this business to afford an inviting field for coöperative effort. The managerial difficulties are formidable. Furthermore, printers are already so well paid where the typographical union fixes the scale of wages, that the pecuniary advantages of coöperation do not appeal to them strongly. The profit-sharing system might be introduced with good results in printing offices.

No recent coöperative undertaking in Minneapolis has opened on so large a scale as an organization of carpenters and joiners, entitled the "Northwestern Coöperative Building Association," which invited public attention early in the current year. It began, I am informed, with about fifty members, and was under the general auspices of the "Brotherhood of Carpenters and Joiners." It rented for its shop a large, unused skating-rink, and made an ambitious *début*. One afternoon in October I sought out the shop, which is at some distance from the central part of the city, full of the laudable hope that I might get material which would justify a description of the undertaking in these pages as a brilliant success. The door was locked, and a glimpse of the interior through an unshuttered window revealed the fact that the shop was abandoned. Casual efforts to obtain full informa-

tion have been futile; but I understand that the enterprise failed as the penalty for over-confidence at the outset. It had counted upon a fair-weather voyage. There had been left out of account the abstinence and sacrifice that the first season would demand. Members should have been content to draw the smallest possible wages until the company was firmly established. Instead of doing that, they began by allowing themselves larger wages than the business justified. I am told that the company collapsed with several unfinished houses on its hands. However that may be, and whether the suspension will prove permanent or only temporary, the over-sanguine beginning has been disastrous. If the company should reorganize, as is proposed, doubtless it will have profited by its first experiences.

A small coöperative cigar-factory has existed in Minneapolis for two or three years, and I had hoped to be able to give a good report of it. But it is not to be found in its old quarters, and I am led to believe that it is totally extinct. It seems to have been in a death-stricken condition for some length of time. I have not learned the determining facts in its short and melancholy history.

A year ago there was in operation the "Coöperative Shirt Factory" of Minneapolis. It was a small affair, but it was begun with high hopes. Its members were eight sewing women. They were encouraged by the Knights of Labor, and were, in fact, members of a women's assembly of that order. Their organization was adapted from that of the cooper-shops. The president was also "forewoman," and the offices of secretary and treasurer were combined. The stock was in ten-dollar shares, to be paid by weekly assessments. Patronage was ample for some time, the Knights of Labor furnishing much of it. Members were paid piece wages and earned nearly twice as much as sewing-girls in other shirt factories. Several large orders were filled at good prices. But after some months of prosperity the business began to fall off. At length the factory suspended and its members sought work elsewhere. It still

has a corporate existence and some of the members talk hopefully of resuming the enterprise. The failure seems to have been due to a number of causes. None of the members understood the coöperative system entirely well, and there were perhaps some slight disagreements over questions of management. But one of the members chiefly attributes the want of success to the fact that the shirts were unskilfully cut and were unsatisfactory in the important essential of fitting. Knights of Labor do not like ill-fitting shirts any better than other men; and their devotion to the noble order and to the cause of labor reform will never sustain a shirt factory that lacks a skilful cutter. If the factory reopens, it will give this point primary attention. It is earnestly to be hoped, for the sake of sewing women and the factory-girl class in general, that this shirt factory will be re-established. While it had work to do, its members were able to earn net wages of from \$4 to \$5 a week as easily as they would have earned \$2.50 or \$3.00 if employed in other factories. There need be nothing disheartening to believers in coöperation in the record of failures; for, rightly viewed, every failure is a step to ultimate success.

XI.

THE NEW IMPULSE.

Readers of the foregoing chapters can hardly have failed to note the fact that coöperation in Minneapolis has recently received a new and strong impulse. One or two of the flour barrel shops are of very recent origin. The shop engaged in general cooperage is a new venture. The grocery store, the land association and agricultural colony, the laundry, the painters' organization, the shirt factory and the coöperative house-building enterprise, are all of later date than 1884. Four of the eight building and loan associations have been

established in this same period. This fresh impulse among workmen to coöperative effort is chiefly due to the growth and activity of the order of Knights of Labor. The District Master Workman, Mr. J. P. McGaughey of Minneapolis, is secretary of the National Coöperative Board of the Knights of Labor; and he and others of the Minneapolis Knights are zealous advocates of coöperation. The order has from five to ten thousand members in Minneapolis, and the discussion of such questions as coöperation at the meetings of its various assemblies, as well as in the weekly sessions of the delegate body known as the Trades and Labor Assembly, has great educational value. It is reasonable to believe that a few years hence this impetus will be seen to have produced large and permanent results. I am somewhat confident that it will lead to the establishment of successful mercantile enterprises. A great society like the Knights of Labor can lend the most valuable assistance to a coöperative store in the matter of securing members and patrons, and customers, obviously, are the prime essential. Once fairly established on the right basis in a good neighborhood, a coöperative grocery may count upon permanent success, whether the order of Knights survives or perishes. In addition to the existing grocery in south Minneapolis, another on the same coöperative plan is about to be established in east Minneapolis. One has been organized in St. Paul and another in the town of Brainerd. All these projects are under Knights of Labor auspices and owe their inception to the Minneapolis store, which in turn owes its existence to the success of coöperation in the cooper-shops.

One of the most recent of the new enterprises is the "Minneapolis Coöperative Furnishing Company" which is just beginning business in south Minneapolis. The retailing of boots and shoes, clothing and the articles known as men's furnishing goods will occupy its efforts for the present, although it contemplates a manufacturing as well as a mercantile business and proposes to undertake other lines of trade such as hardware and household furniture. The incorpora-

tors are Scandinavians. The business will be conducted upon almost precisely the same plan in all respects as that of the "Minneapolis Coöperative Mercantile Company." The Scandinavians, who constitute perhaps one-third of the population of Minneapolis, have shown themselves to be excellent coöperators, and this new "Furnishing Company" has better prospects than if its incorporators were men of any other nationality.

A coöperative fuel company is a favorite idea with the Minneapolis workingmen, and steps have been taken towards the inauguration of such an enterprise. There is probably no line of business which a large body of organized workingmen could conduct so easily and successfully as a coal and wood yard, but for the iniquitous combinations in the fuel business which would endeavor to crush the coöperative company before its business was fairly established. In spite, however, of the artificial monopolies which control the production and sale of coal, I believe that the workingmen of a city like Minneapolis could establish a successful fuel company and effect large savings.

The Minneapolis Knights of Labor contemplate the erection of a central building, four stories high, the first floor to be rented for stores, the second to be arranged for offices, the third to be used for the lodge rooms of societies and the fourth to contain a large auditorium. The "Knights of Labor Building Association," of which Mr. Thomas A. Clark is president, is a joint-stock company organized on the coöperative system, for the particular purpose of constructing such a building. The company has a nominal capital of \$100,000 divided into shares of \$5. Organization was effected in June, 1886, and a hundred and fifty members were secured at once. Shares are to be paid for in monthly installments of ten per cent. A general subscription among the Knights is not to be expected until the location has been definitely chosen and plans adopted. When the money is actually required, it is believed that a very large number of subscribers for one or more shares

can be obtained. No person will be permitted to hold more than two hundred shares. Each member has an equal voice in the election of officers and directors, whether he owns one share or two hundred; but the profits of the company are to be distributed, of course, in proportion to stock. It is desired to complete the building in time for dedication in the fall of 1887, when the national conference of the Knights of Labor is to be held in Minneapolis.

In March, 1886, a "Musicians' Protective Union" was organized in Minneapolis with fifty members, now increased to seventy. It constitutes an assembly of the Knights of Labor. Forty of these musicians are organized under the leadership of Mr. G. A. Schubert as a coöperative band. The company supplies a large or small orchestra or a cornet band as required. Some of the members have other occupations, some have not. All receive pay at the same rate, the leader included. The arrangement is pronounced a success by Mr. W. L. Mallory, secretary of the organization, who says that it enables the members to get more work and better pay for their services. Whether or not it has elements of permanence I do not know.

Enough has been said to make it evident that the idea of coöperation is beginning to have a strong hold upon the minds of Minneapolis workingmen. They are thinking about it, and are pondering its applicability to their own trades. The workers in sash, door and blind factories, the plasterers, and men employed in some other crafts and lines of manufacture have begun to frame more or less definite plans for coöperative effort. Not one of these honest and manly attempts of wage-earners to become their own employers, obtain larger returns from their labor and achieve industrial independence can be wholly fruitless, whatever its apparent fate may be. Most of them, it is true, are humble and obscure; but far from being insignificant because they have their beginning among the "common people" and are not fostered or patronized by the aristocracies of wealth or culture, they are on that very account the more deeply significant. What men win for themselves is

their own. Workingmen cannot have coöperation, or any other improved system of industrial organization, thrust upon them. Good influences, welcome encouragements and educational aids can be bestowed; but, after all, it remains for men to help themselves, asking no odds. Coöperation is the most admirable form of self-help because each man is helping his fellows to climb as rapidly as he climbs himself, and the progress of all is facilitated. It develops and strengthens all the worthiest elements of manhood, while its disciplines and restraints are invaluable. When, therefore, in a given community considerable numbers of workingmen are found to be successfully practicing the coöperative system, with various other groups preparing to follow the example, there are thoughtful men who will deem this social fact quite as significant a mark of true progress in that community as the broad and beautiful streets, the palatial business structures or even the ample school buildings and costly churches.

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IN

NEW ENGLAND.

By EDWARD W. BEMIS, Ph. D.

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COÖPERATION IN NEW ENGLAND.

I.

EARLY HISTORY.

BROOK FARM.

Coöperation in New England, if we except profit-sharing in the fisheries, began in the year 1842-7, when organized labor first became a power in Massachusetts, and when that remarkable enthusiasm for social amelioration was awakened which led to experiments like that of Brook Farm and Northampton. The same movement in France gave birth to Fourier, and in England to Robert Owen and the Rochdale Pioneers. The Brook Farm Community located about ten miles southwest of Boston, and the scene of an attempt (1842-6) to form a coöperative commonwealth, modeled in its last stages after the ideas of Fourier, was one of the earliest manifestations of this movement in New England. Although more ambitious in its aims and more radical in its revolt from existing economic conditions than most coöperative schemes, since it involved the whole social life, as well as the production and distribution of wealth, the influence of the experiment upon the

subsequent development of coöperation was probably greater than is generally supposed. The saving attendant upon the concentration of the purchases of a whole community, equality of all shareholders in the management without regard to their amount of stock, and the endeavor to distribute the benefits among all, after payment of a stipulated interest on capital, were by no means the chief legacies bequeathed to subsequent coöperative experiments in America by Brook Farm. These ideas might have been, and often were in later enterprises, borrowed directly from England, or were a natural evolution from existing conditions.

The most enduring influence of the community was through its members, who were so stimulated by the ideas of Fourier, Brisbane, George Ripley and others as to become leaders and important contributors to the success of subsequent coöperative efforts. It is sufficient to mention as among the members John Orvis, of Jamaica Plains, Mass., and Jonathan Butterfield, of Wakefield, Mass. The former was subsequently the national lecturer and organizer of the Sovereigns of Industry, and is still a prominent, if not the chief, exponent and advocate of coöperation among the Knights of Labor in his State. Mr. Butterfield was for several years treasurer of the National Council of the Sovereigns. His brother-in-law, Mr. John T. Codman, of Boston, whose unpublished history of Brook Farm was freely used by Mr. Frothingham in his life of Rev. George Ripley, thus writes me :

“Certainly Brook Farm life was one of the early blossoms of the coöperative movement, which sprung from the clear heads and loving hearts of some of New England’s best intellectual people, but like the early bud, it came before the frosts and ice of isolated

winter had gone, and was killed. It showed, however, what fruit the future tree of life and society will bear—or rather what blossoms were in the innate life giving a harbinger of what the great future will develop of fruit in social and society life. I will say this: As a youth I heard all predicted of the present strife of labor and capital, and much more of what the future must bear of coöperation, or else the death of this nation is sure. As a youth I learned to reverence the great Fourier, the father of the development theory, whose great industrial ideas this nation is slowly reaching forward to and developing, without the thought that they are doing so—without giving him, or the Brook Farmers who tried to teach his doctrines, a word of credit. Brook Farm life and theories made me believe that industrial, and with it social progress, is the foundation of society and of our nation.’’

The friends of Mr. John G. Kaulback, Jr., who is still living and head of a firm of wholesale grocers, 21 Central Wharf, Boston, claim for him an important place in beginning coöperative stores in New England. There had previously existed for an uncertain period the system of obtaining reductions in the price of goods for organizations that would pledge their members to exclusive trade of a certain store. Soon after 1840, Mr. Kaulback, then a tailor in Boston, was a member of the New England Association of Farmers, Mechanics and Workingmen, and deeply interested in its chief object, the securing of the ten hour law. Since the meetings were slimly attended, he conceived the idea that the members might be induced to come to the place of meeting, provided they could be made to see more plainly that it was their interest to do so. He therefore proposed that they contribute a certain sum individually, and therewith procure some of the necessaries of daily consumption and meet weekly to divide them. This was, at his suggestion, put into operation. A so-called dividing store was thus opened. From this small beginning, step by step, the work went on

until the year 1845, when the first protective union store was organized and commenced business.

After success was assured in 1849, the founders thus referred to this early period : “We were poor—a crime in civilized society—we were ignorant to a great extent of the arts and intrigues of trade, but saw enough to induce the undertaking of an experiment, and with faith in God and the right, we commenced our work by the purchase of a box of soap and one-half box of tea.” Some dozen or more persons thus began in an upper room over the Boylston Market, October 6, 1845, declaring that their main object was the elevation of the laboring classes. “The dollar was to us of minor importance; humane and not mercenary were our motives.”

THE NEW ENGLAND PROTECTIVE UNION.

An organization, called until 1849 the Workingmen’s Protective Union, and afterwards the New England Protective Union, was formed January 7, 1847, of the twelve local divisions then organized, of which ten were in Massachusetts, and grew so rapidly that in 1850 there were 106 divisions. The membership in 83 of them was 5,109, and the capital in 84 was \$71,890.36, or an average of \$855.83. The lowest capital was \$150, and the highest \$2,765.51. The sales of 73 divisions in the preceding year were \$638,636.74, or an average of \$8,748.44.

It was Albert J. Wright, recently State printer, now deceased, who first gave shape and form to the movement. Mr. Wm. F. Young, of Wakefield, informs me that Mr. Wright framed the constitution and laws of the New England Protective Union, and

later set forth its aims and purposes through a vigorous preamble, and was its secretary until succeeded by Mr. Young in 1850, Mr. Kaulback meantime being the Boston purchasing agent. The constitution of the New England Protective Union, as of its offshoot in 1853, the American Protective Union, was very simple. When fifteen or more persons, who did not use or sell for use as beverage intoxicating liquors, desired to form a division, they applied to the central organization, which sent a delegate to superintend the organization of the new division and to designate its members. Local divisions were then left to manage themselves, subject only to the following conditions: restriction of membership to the strictly temperate as above, quarterly report to the Central Division of the number of members, amount of capital stock and any changes in its officers, the payment of such small dues, rarely above three cents yearly per member, as the Central Division might require. Purchasing agents were selected in Boston, and afterward in a few other large cities, through whom the local divisions were expected, when practicable, to buy their goods. These agents had no salary, but could charge a commission of three-fourths of one per cent. on purchases and two per cent. on produce sold for the divisions. In the constitution was this section: "The business of the New England Protective Union shall be conducted upon the cash principle. No credit shall in any case be given. And furthermore, no division shall engage in, encourage or countenance the traffic in intoxicating drinks." How far these provisions were observed it is impossible to say. It is known that some divisions gave credit and that many others sold

only for cash. In the early history of the movement the practice was almost universal to sell only to the stockholders and such other persons as were allowed its privileges through charitable motives. After a few years union stores were generally thrown open to the patronage of all.

Although the founders of this movement professed noble ideas of social amelioration, the majority of the members were content with the practical object of saving the expenses of the middleman and of the credit system. It was recognized that the trader is obliged to increase the price of his goods to cover probable losses from the bad debts of improvident or delinquent customers. The honest, thrifty purchaser who is always ready to pay is thus forced to contribute to an insurance against loss from those who fail to pay. No attempt to secure large profits was made by the union stores. Dividends of six per cent. on stock satisfied the members, and were often declared. In many cases, however, no attempt was made to declare any dividends, the surplus being applied to increase the capital and enlarge the business, and thus indirectly increase the value of the shares. Goods were sold as near cost as seemed consistent with safety. The Sovereigns of Industry claimed years afterward that they were the first in this country to use the Rochdale plan of coöperation, according to which goods are sold at market prices, and all profits above a moderate dividend on stock are returned every three or six months to the purchasers of goods in proportion to the amount of their trade. I have found no direct evidence of the existence of this system in the union stores, but Mr. Young, general secretary of the original organiza-

tion from 1850 to its dissolution in 1860, is authority for the statement that coöperative stores on the Rochdale plan were established in and near Boston as early as 1864. The Charlestown store did a large business and was successful for several years. Unfortunate changes in management and policy ultimately proved disastrous and caused its failure. Very little public attention, however, was centered upon this method of coöperation until its adoption by the Sovereigns.

Great pains were taken in most of the union stores to make them of far more general benefit to their patrons than the ordinary joint-stock companies, which they in many respects resembled. This was done by limiting dividends and selling at small advance above cost. But the temptation was great, and often yielded to, of increasing at the same time the price of goods, and the amount of dividends to the comparatively small number of stockholders. Many stores thus ceased to be coöperative, and the stock passed into the hands of a few of the more enterprising or well-to-do. The growth of the union stores prior to 1853 was astonishing. In October, 1852, there had been organized 403 sub-divisions, of which 167 reported a capital of \$241,712.66, and 165 recorded sales the previous year of \$1,696,825.46. No sooner did success seem assured than union was changed to disunion, and bitter dissension took the place of harmony. Many of the divisions, not seeing the advantage of buying their goods through one central agency, and thereby obtaining the low prices attendant upon large trade, only sent to the Boston agent orders whose filling was difficult and tedious, and on which the three-fourths per cent. commission did not

pay the agent for his trouble. Dissensions thus arose. Other causes, doubtless, widened the breach, until in 1853 the old agent, Mr. Kaulback, was supplanted by another. This action was taken by the Board of Trade, which constituted the executive authority of the Central Union, and was annually elected by a delegate convention of the several local unions. The friends of the former agent rallied to his support and formed a new organization, with substantially the same constitution as the old, and known as the American Protective Union. This embraced for a time divisions in at least ten States. At its annual convention in 1857 it reported 350 divisions, with 327 of which the Central Division was in more or less close business relations. The aggregate amount of capital was reported at \$291,000, and the amount of annual trade \$2,000,000—its high-water mark, though a trade of nearly as much was reported during the next two years. Of the 769 divisions which either were in business in 1857, or had been previously, 46 were represented in the convention of 1857, distributed as follows: Massachusetts 22, New Hampshire 7, Vermont 6, New York 5, Maine 4, Rhode Island 1, Connecticut 1.

The original or New England Protective Union, though seriously crippled by the schism in its ranks, had reports in 1856 from 63 divisions, with 3,584 members, \$130,912 capital, and a trade for the preceding year of \$1,005,882.02. According to Mr. Young, about 700 of these stores were organized and went into operation. Though principally confined to New England, they gradually extended into New York, Ohio, Illinois and other Western States. Several were established in Canada and New Brunswick

and one in Oregon. Upon closing business most of the stores returned to members the amount of original investment. In some cases considerable accumulations were also divided. In a few cases, however, where the stock failed to satisfy the debts of the store, the shareholders became responsible for all liabilities, since most of the stores were not incorporated.

CAUSES OF FAILURE.

Both organizations began to decline about 1858 and went to pieces at the outbreak of the Civil War. "The uncertainty of prices at that period," writes Mr. McNeil, "frightened the stockholders, and they gladly sold to the storekeeper, who was willing to risk something for the sake of continued occupation." Yet many of the divisions, as the stores were called, continued business as independent associations. Mr. Wm. F. Young, than whom no one living is better qualified to speak of this first important attempt at coöperation in New England, thus writes:

"There were several causes which tended to weaken and finally break up the Union stores, such as lack of coherence and unity in central organization, disposition to imitate and rival other stores in useless display and expensive modern improvements, departure from the original cash or ready-pay principal, so vital to all union and co-öperative enterprises, and the want of proper qualities on the part of those intrusted with the varied business details. The sharp competition which sprang up between the union stores and the retail dealers, which materially reduced the standard of profits, contributed in no small degree to lessen the apparent advantages of the system and discouraged many, especially those who gave little thought to questions of economic reform, and whose attachment to the organization was measured, largely, by the per cent. of immediate gains they were able to realize. The seductive cry of bargains from the outside competition drew away many of this class."

The system of selling at cost, or just above, is most difficult to follow successfully. We shall here-

after notice a few conspicuous examples of success in stores so conducted, but in nearly all such cases exceptional intelligence among the patrons, or remarkable capacity in the manager, will be found. The great weakness of the system is its claim to undersell all other stores. A fierce rivalry is thus engendered. A competition will offer some important line of goods for less than cost, and by well advertising this, persuade the mass of unthinking patrons of the coöperative enterprise that they can really do better elsewhere, though, in fact, a transference of patronage to the rival stores would, very likely, involve much higher prices on the whole of the month's trade. Another difficulty lies in the probability that, in trying to sell so near cost, unforeseen expenses and losses will not only sweep away all profits, but also some of the capital.

The causes of failure have also been so well presented in Mr. George E. McNeil's report to the Massachusetts Bureau of Statistics of Labor of 1877, and the report itself is now so hard to obtain, the edition being exhausted, that I will borrow, to some extent, from his treatment of the subject as a supplement to Mr. Young's. The most visible cause of failure was the choice of incompetent managers. Men sought the place instead of the place the man. The case of one store where a good manager was chosen is typical: "For a few years all went well. Then began the whisperings of discontent. The management was arbitrary. It cost too much to run the store. The storekeeper's salary was too large. It was more than a mechanic's wages. The store could run itself. This man and that should be taught that others could do as well as they. By much whispering and

manipulation, many falsehoods and misrepresentations, the management was changed, innovations were introduced, a new storekeeper employed. The cautious were frightened and withdrew their money; an unwarrantable dividend was declared to maintain confidence, trade fell off, and they failed."¹

People were then too self-important and untrained in those habits of due subordination and unhesitating obedience, which Therold Rogers considers necessary to success in coöperation. This great difficulty, our labor organizations, if they do nothing else, are remedying. For, after all, the underlying causes of all coöperative failures are lack of intelligence and of the spirit of coöperation. Holyoake well described the cause of many a failure, when he wrote: "As soon as the sunshine of success warms up the scheme, the envies and jealousies crawl out like parasites, and in some cases when human nature is worse than in others, they overrun everything and make the society morally uninhabitable." All my studies of coöperation serve only to confirm the verdict of Mr. McNeil: "The failure of these experiments is not so much due to methods as to men. The men are masters of the method. When it is said that a store failed because it allowed credit, it only half states the fact. Who allowed credit? Not the storekeeper. He was the servant subject to the majority. It was a failure to coöperate, for coöperation needs an intelligence equal to the settlement of such a question. If the management is charged with dishonesty or inefficiency, the coöperators are also responsible. The judgment necessary to select the proper men is the first essential of coöperative

¹Report of the Mass. Bureau of Labor Statistics, 1877, p. 125.

success. Men are often selected to important positions, because they are affable, agreeable persons, qualities to be encouraged, but of little avail, if methods of business are unsound."¹

SURVIVALS OF THE UNION STORES.

There are now in New England three survivals of the old union stores, viz.: at Worcester and Natick, Mass., and Salmon Falls, N. H. Division 42, as the Worcester store is called, being the 42nd in order of origin of the union stores, began in 1847 with about \$700 capital in \$13 shares. Now the capital is valued at \$18,000, and none of the 130 shares brings less than \$150 when sold. From the beginning no one has been allowed to own more than one share, or to transfer stock save to the company. On the death of a member the share reverts to the company for sale to another, and the legal representative of the deceased receives a sum equal to one share of the net assets of the store, based upon the last report of the directors. Either this provision, or the requirements that no stock shall be transferred without being first offered to the company, is quite common in the coöperative stores of to-day. The constitution of Division 42 limits the membership to 150. Although there are many desirous of admittance, only 130 are now members, but the directors are considering the propriety of admitting 20 more. As in the constitution of the New England Protective Union, no one is admitted who uses or sells intoxicating drinks as a beverage, or who is not of good moral character. The applicant for a share must give two "good, respectable references," must be approved by the

¹Report of the Mass. Bureau of Labor Statistics, 1877, p. 125.

‘committee of investigation’ of three persons, and receive two-thirds of all the votes, as well as pay for a share. The profits, which go entirely to the stockholders, have varied from \$5 to \$50 a share. The former was exceptionally low, and due to the expenditure of \$2,000 nine years ago in fitting up the store. The profits in 1884 were \$35, and in 1885 \$50 per share.

When the store was opened, goods were sold at cost and no dividends were declared, but since the present method of selling at market prices and dividing profits solely among shareholders was adopted over twenty years ago, about \$75,000 have been paid to members. It is now really a joint-stock company with stock equally distributed among 130 members. By this restriction of membership and method of profit-sharing, the store, which is very prosperous with its annual business of \$140,000 to \$150,000, and which occupies one of the best locations in Worcester for which it pays a rent of \$2,750, is not regarded among the laboring classes of the city as truly coöperative. As its original members have died or moved away, the high premiums for their shares, which reverted to the company for sale, have placed them beyond the reach of most. About twelve years ago the private property of the stockholders was assessed for \$5,000,000, an average of over \$3,000 each. Despite the absence of many coöperative features the original connection of this store with the coöperative movement, and its continued success seem to call for this notice. Its prosperity seems due largely to the ability and devotion of its manager, Mr. S. A. Pratt, who has held his position from the beginning in November, 1847, when he was employed at \$1.25 a day.

He told the writer: "When getting \$1,000, I was offered \$3,000 to go to Boston, but I stayed, for I was desirous to see if the trade could be built up from a Christian standpoint. At one time I had my salary reduced at my request from over \$2,000 to \$1,500, when business was not very flourishing. I get whatever I ask, but I am not here to make profits for myself, but to build up a legitimate business." He spoke with pride of the fact that neither liquor nor tobacco were sold in the store, and that even the devotee of the latter would instinctively lay aside his cigar or pipe on entering. It is men of this manager's type of Christian manhood who are needed in all coöperative enterprises, and I may here confess that throughout my investigation, I have been most happily surprised at the number of such unselfish men in the community, and particularly in the coöperative movement. Two other important conditions of success have prevailed in this oldest of the survivors of the union stores, viz.: the general intelligence of the members, and the strictly cash system of sales. Very rarely is any credit given, and then wholly at the risk of the manager to some member of undoubted honor and solvency.

Second in age of the survivors of the union stores, though 108th among them at its organization, is Division No. 108, at Salmon Falls, N. H., started February 11, 1850, with a capital of \$400, and now having a paid in capital of \$1,705 in 341 five-dollar shares, owned by 202 members, and an individual surplus of \$5,281.62, or a total capital of \$6,986.62. No member can own over ten shares. The trade of the last three years has averaged about \$48,000. Six per cent. dividends have been paid on the stock

annually from the beginning. One thousand dollars was divided among the stockholders twenty years ago, and if the business should ever be closed up the present large surplus would be divided in the same way, according to the number of shares. The agent, Mr. R. C. Fernald, who has held his position throughout the thirty-six years' history of the store, writes: "We intend to regulate the prices of our goods so that the profits will just pay our expenses [interest six per cent. on stock being considered part of expenses]. We do not work to make money for our stockholders, but to save money by buying goods cheap." This has ever been their method of profit-sharing. Contrary to the usual practice among such stores, goods are sold to the 202 stockholders about two per cent. lower than to outsiders. Prior to the dissolution of the Boston agency of the New England Protective Union, about 1860, this store bought goods there. Since then purchases have been made of any wholesale firm. For the first twenty-five years a cash business was done. For the past ten years accounts have been kept, which the agent considers a mistake. As in the Worcester store a superior class of stockholders are secured, though they are not as wealthy as in the older store, applicants for membership must not only buy a share, but must prove to the satisfaction of the directors that they have "some visible means of support," "possess a good moral character," and are "of that class who honorably discharge their debts, and who do not make use of or vend intoxicating drinks," and any member, that is, any stockholder, may be expelled after due notice by vote of the majority present at any meeting for lack of any of these qualifications.

Any member withdrawing from the store may have his stock refunded to him within thirty days.

Another vigorous survivor of the union stores, although not started until after the collapse of the central Boston agency, is the Natick Protective Union. Organized December, 10, 1866, at Natick, Mass., with \$2,000 capital in \$10 shares, it now has \$6,000 paid in capital in 600 shares, distributed among 575 share-holders. The par value of a share is still only \$10, but the large dividends make the stock sell for about \$30. The store was the successor of another Union store which had failed, and Mr. Isaac A. Flagg, who has managed the present store from its beginning until recently, when advancing years led to his giving up part of his duties, was a clerk in the previous enterprise. In October, 1868, only two years after its organization, the capital had doubled, and a stock dividend of \$2,000 was declared. Some kept these extra shares, but many sold them and thus increased the membership. In 1875, under pressure of competition from the Sovereigns, 200 more shares were created, not to be sold to previous holders of stock, and only one to a man. Applicants for membership must not only pay for a share, but bring three vouchers, who are members of the association, and must be approved by the Board of Managers. Transfers of stock can be made to members, if they have not the full number of twenty shares, to which each member is limited, provided the Board of Managers are first given thirty days in which to purchase, if they so desire, but no transfers can be made to outsiders without the consent of the officers.

The object of the corporation is declared in the official act of incorporation according to State law

in 1866, to be "to reduce the cost of living." It had just been discovered at the time of my visit, when account of stock was taken, that the profits on meat had been larger than expected, owing to a fall in wholesale prices. Said Mr. Flagg: "We now sell lower, for we don't want a large profit—we prefer to benefit the consumer"—a very different ideal, certainly, from that held in our ordinary competitive stores. Goods are sold to everyone, whether stockholders or not. Discounts on many articles of the retail grocery trade are given to members, but low prices are offered to all customers. Although prices have thus been much lowered and consumers thereby benefitted in this town of 9,000 inhabitants, yet the 575 stockholders have also been richly rewarded. The profits on a ten dollar share for the past ten years, including the regular six per cent. interest provided for in the by-laws, have been as follows:

1875, \$4.60	1879, \$4.00	1883, \$1.75
1876, 5.00	1880, 5.00	1884, 5.00
1877, 5.00	1881, 3.60	1885, 7.50
1878, 3.60	1882, 3.60	

In 1885 some surplus from the previous two years was divided. It will be observed that in the last eleven years over 500 stockholders have received 476.5 per cent. dividends, which is a remarkable exhibit. According to State law, ten per cent. of the net profits were laid aside for a reserve, until a surplus of thirty per cent. of the capital was thus accumulated. This limit was reached at Natick years ago, and all profits now go to dividends. According to another provision of the State law, and according to the practice of every coöperative company in New

England, each shareholder has a separate vote, without regard to his amount of stock. Groceries and meat are sold, but the accounts are kept separate, to determine the profit or loss in each. At first no attempt was made to solicit orders. Only heavy goods were delivered. Later, cards were placed in the windows for orders. Last year competition and the desire of the patrons compelled the use of teams for taking orders and general delivery as in other stores. Three teams are run and nine men employed. Three or four, however, are either too young or too old to receive full wages.

Full and admirable reports are printed yearly, which not only contribute to render the business safe and subject to the control of the members, but cannot fail to do much to educate all in business methods. From these reports the following totals of trade since 1880 are extracted—

1880.	\$118,366	1883,	\$113,996
1881,	123,153	1884,	105,600
1882.	130,081	1885,	100,176

There has been no diminution in the amount of goods sold, but only in the prices for them. The testimony to this effect among several coöperative companies is strong evidence of the reduction in the cost of living with respect to groceries within the last five years. At the time of the organization of this company, twenty years ago, some coöperative enterprises in the neighborhood had failed through credit; so this rock was avoided. There is no trusting, unless in small accounts for a few days, on the personal responsibility of the manager. The latter remarked that he considered it more difficult to manage coöpe-

rative than other stores, since the former must always be open to inspection and please everybody; "but," he added, "our members never trouble."

II.

THE PATRONS OF HUSBANDRY.

In 1873, '74 and '75 this order, founded in Washington, D. C., in 1866, spread rapidly in the agricultural portions of New England, and continues there as a well-organized and useful society. It does not seek or obtain much public notice, and a majority of those living in the cities are probably unaware of its existence. Its power for good, however, and its steady growth among the farmers, are none the less real. The order has grown in Maine from 7,039 members in 119 granges in 1880, to 13,531 members in 184 granges in 1885. There were in that year 5,500 members in about 80 granges in New Hampshire, and 2,500 members in 35 granges in Connecticut. The growth in Massachusetts has been from 1,141 members in 33 granges in 1881 to 4,078 members in 50 granges reported at the fourteenth annual session, held in December, 1886. The total membership in New England is between 25,000 and 30,000. The above figures are taken from the official reports and estimates of the various State officers of the order.

As the order was founded, and has done its greatest work outside of New England, it does not belong to this investigation to enlarge upon its history and valuable educational and social features. It is sufficient to state that the benefits conferred upon the membership in New England are as great as elsewhere.

GRANGE STORES.

In Maine the Patrons have several coöperative stores, whose success for several years bids fair to continue. Mr. F. A. Allen, secretary of the State Grange, writes: "I consider the outlook in Maine better than ever before." These stores, generally, resemble the union stores already described, selling goods at little above cost to Patrons of Husbandry, and the stock being owned solely by them. Some of these stores date from 1876 and 1877. Among them may be mentioned the Norway Coöperative Trade Association, organized in 1877 at Norway with a few hundred five-dollar shares and doing an annual business of \$6,000; another at Foxcroft, Me., with the same business; one at Carroll and another at Belmont trading \$4,000 each. Grange stores also exist at Samoin, Morrill, Jackson, South Paris, Topham, Freedonia, Dixmont and probably other Maine towns.

The largest grange store in New England is the Patrons' Coöperative Corporation, of Portland, Me., wholesale dealers in groceries, grain, provisions and farm supplies. Despite many letters of inquiry to the managers and directors, little information has been obtained. The capital of the store, which was organized in 1877, is estimated by J. W. Lang, of Bowdoinham, Me., member of the Executive Committee of the State Grange, to be about \$40,000 in \$5 shares, on which six per cent. interest is paid. The net earnings rarely permit much of a dividend beyond this. The State Grange owns about \$4,000 of the stock. Many local granges have shares, and individuals own the rest. The store has a trade of about \$175,000, supplying scores of grangers and grange stores with goods of all kinds at low prices.

The history of the coöperative attempts of this organization in New Hampshire are thus summarized in the annual address to the order in 1885, of Mr. Wm. H. Stinson, of Mt. Vernon, N. H., Master of the New Hampshire State Grange :

“In the earliest days of the grange, not only in this state, but throughout the United States, the financial feature was held out as the strong inducement for the organization. Every grange had its store, and patrons expected to purchase their supplies at wholesale prices. We also well know that these expectations were not generally realized, and the financial crash came, debts had to be met, members withdrew, and granges went to the wall. After a time the social and educational features were brought forward, the business item placed secondary, and on this basis the grange built on a firm foundation and grew strong and useful beyond the thoughts of its early advocates. The failure in business came through want of experience and proper adaptation to that work. Success follows experience, and failure that of inexperience.”

The only coöperative store of any size of the grange, or as far as I can learn, of any organization in New Hampshire, until very recently at least, has been the coöperative store of Rochester. Mr. D. B. Waldron of Rochester, secretary of the local grange, writes that the store has \$7,000 capital in the hands of 32 stockholders. All profits have gone to them since the establishment of the store in 1876. Goods to the amount of nearly \$40,000 are sold yearly to everybody at just enough above cost to pay interest, not exceeding six per cent. on the capital. The store has been a success, thanks to a capable manager. Mr. Waldron writes that goods are sold in Rochester at the present time lower than in any other town in New Hampshire. I have found no granges in Rhode Island, or grange stores in Massachusetts or Vermont.

Grange stores exist at Torrington and Lebanon, Connecticut. Mr. B. C. Patterson, manager of the

Torrington store, writes that goods are sold only to members of the order, and at a slight advance above cost. It was started with no capital, but patrons furnished what little was needed at four per cent. interest, until the small profits repaid the loan. There is no stock. The funds belong to the local grange. Any surplus is used to obtain good lectures and entertainments for the benefit of members and others. Only groceries are sold.

From Lebanon, Ct., Mr. Asher P. Smith writes that the grange store there has a trade of \$16,000 annually. It has no share capital, but borrows \$3,000 and sells at little above the amount necessary to cover cost and running expenses. The store is sustained by the 189 Patrons of Husbandry in Lebanon.

TRADE DISCOUNTS.

That elementary form of coöperation where the members of an organization buy at reduced prices for cash, by agreeing to concentrate their trade on certain stores, is widely prevalent throughout the order in New England. Secret circulars are issued to members giving lists of stores and discounts where such arrangements have been made. The goods on which such discounts can be obtained in New Hampshire, according to the official circular of 1886, embrace agricultural machinery, tools, boots and shoes, books, stationery, seeds, custom and ready-made clothing, dress and dry-goods, groceries, grain and feed, paints, furniture, sewing machines, pumps, and in fact everything needed by the farmer. The state granges of New Hampshire, Vermont, Massachusetts and Connecticut, have made joint arrangements with a large number of manufacturers and wholesale

firms for stipulated discounts on cash trade, subject to certain conditions, viz.: Each subordinate grange to choose one member as purchasing agent, all purchases to be made through him, and the list of the houses making the discounts to be kept from the knowledge of those who are not members. Confidential price-lists are furnished purchasing agents upon application, under seal of their subordinate granges, and attested by the master and secretary of these granges. Coöperative life and fire insurance companies are also being introduced. Mr. J. H. Hale, of South Glastonbury, Ct., Master of the Connecticut State Grange, estimates that from \$40,000 to \$50,000 were saved to the patrons in New England in 1886, by these various coöperative forms.

III.

THE SOVEREIGNS OF INDUSTRY.

EARLY HISTORY.

With the first month of 1874 a new factor in coöperation appeared, which was destined, in the five years of its eventful history to give a great impulse to coöperative effort and to mark a great advance in its methods. The history of the Sovereigns of Industry has never been written, yet not only to the social reformer, but to all students of social science, the story of its rapid rise, and almost equally rapid decline, is full of instruction.

The founder of the order, and for four years its official head, Mr. Wm. H. Earle, was in 1874 a small fruit-grower of Worcester, Mass. His five acres within the city limits, located on a beautiful hillside, sloping to the south, overlooked this picturesque city,

and here he still resides, though in other business, as full of faith as ever in the future of the ideas to which he gave some of his best years. The *Worcester Gazette* of January 15, 1874, thus referred to him: "Mr. Earle has resided in this city but a few years, but has won the respect and confidence of all with whom he has come in contact. In matters pertaining to horticulture, and among those interested in that pursuit, he is widely and favorably known." He thus relates the origin of the Order of the Sovereigns:¹

"Dudley W. Adams of Waukon, Iowa, (in 1872 Master of the Iowa State Grange), was an old schoolmate of mine, and when he became Master of the National Grange of the Patrons of Husbandry, he wrote me inviting me to take hold of the work of organizing granges in Massachusetts. I began carefully to study this whole question of labor and capital, of producer and consumer, spoke to some of our leading agriculturists and arranged to organize a grange in our city. About the time we organized this grange the question came up, 'Why should the Patrons of Husbandry refuse to admit all but farmers?' The more I studied this question, the more thoroughly convinced I became that, while the common foes and common wants of all the toiling men and women in our land were nearly alike, there was no good reason why all persons of good character, engaged in industrial pursuits, and having no interests in conflict with the purpose of the order, should not be eligible."

Invitations were therefore sent about this time, January 1, 1874, to different parts of the country to such persons as were believed to be in sympathy with such movement. A convention was called to meet in Springfield, Mass., January 6th. At that date some fifteen laboring men met to consult about the

[¹I must acknowledge my great indebtedness for the history of the Sovereigns to Mr. W. H. Earle, who placed at my disposal a mass of material, including the unpublished records of the National Council.]

advisability of organizing a new society or order. For eight days and nights they earnestly discussed this question and a plan of organization, and then adopted a preamble, constitution and ritual, and organized as the National Council of the Order of Sovereigns of Industry. The afternoon of January 16, the day after the adjournment of the Springfield convention, Mr. Earle organized the first subordinate council of the order at Worcester. The same evening a council was formed in Springfield, Mass., partly through the instrumentality of a relative of the founder. Other councils were immediately formed in other states, Mr. Earle organizing the first council in six states within a few weeks. It was soon found that the movement was to become of far greater magnitude than had been at first expected, and "in order to lay the foundations strong and deep," writes Mr. Earle, he and his coadjutors were compelled to call a special session of the National Council to make certain alterations in the constitution and ritual. These alterations were made at Springfield, Mass., March 5th, 6th and 7th, 1874, by representatives from most of the sub-councils then organized. "At our first meeting in January," continued Mr. Earle, "we met as strangers. I knew only one person in attendance at the convention, and had no thought of becoming conspicuously identified with the movement, but went because my heart was in the work. Very unexpectedly I was unanimously elected president." At the special session he resigned, and was again unanimously elected, and continued to hold that office by the same unanimous choice until ill-health compelled his resignation in 1878.

It is now time to consider the objects and methods of this new order. The purposes of the founders are so well expressed in the preamble to the constitution, and were so confirmed by the subsequent history of the movement, that one cannot do better than quote :

“By all the wise and kindly measures it can command, it will present organized resistance to the organized encroachment of the monopolies and other evils of the existing industrial and commercial system. It will try to establish a better system of economical exchanges and to promote, on a basis of equity and liberty, mutual fellowship and coöperative action among the producers and consumers of wealth throughout the earth. We wage no wars with persons or classes, but only with wrongs, discords and hardships, which have existed too long. We most earnestly deprecate hatred, jealousy or envy between classes, and call on all people to be of one mind in the spirit of justice. We abhor every scheme of agrarianism or violence, and shall use only such instrumentalities as are sanctioned by demonstrated principles of moral philosophy and social science, the universal interests of humanity, and a philanthropy rising impartially above all distinctions of class, sex, creed, race or nationality.”

In the first address of President Earle to a subordinate council—that at Worcester—on its organization, January 16, 1874, he used these words: “I wish first of all to say that this order seeks to bring these two classes (employés and employers) into a closer fellowship of good feeling and mutual interest.”

It was proclaimed that any person of “good character and having no interest in conflict with the order” could be admitted on vote of a subordinate council, and on payment of an initiation fee of \$2 for men, \$1 for women, and yearly dues of from \$1 to \$4, as local necessities might require. At the commencement, at least, lawyers and professional politicians were excluded, as by another organization of more recent fame, the Knights of Labor. In Massachusetts, and probably in some other States, three black

balls caused the rejection of a candidate. The secret ritual of the order is a secret no longer, and contains nothing to which anyone could not readily subscribe.

Each subordinate council was entitled to two representatives in the state council, and the latter sent representatives to the national council which met once a year, listened to reports, legislated for the interests of the order, and elected officers for the ensuing year. Arrangements were made by means of traveling and withdrawal cards for members moving from the seat of one council to that of another.

Most of the councils began coöperation by empowering agents to buy for cash at wholesale prices. At regular intervals of a week or longer, such goods as the members of the local council deposited money for in advance. Thus without capital, goods were obtained at marked reduction from the high retail prices of that period. An annual trade of many hundred thousand dollars thus sprang up in New England, and much was saved to the laboring classes. Many, perhaps half, of the councils, never went further. The largest store of the order, and, with the exception of one at Worcester, which preceded it in organization by a few hours, the oldest store was that at Springfield, Mass. Its history is so full of lessons of warning that a brief account of its rapid rise and unfortunate ending may not be amiss.

THE SPRINGFIELD STORE.

January 16, 1874, as a result of the visit from Mr. Earle above referred to, a council of 26 was organized in the well-known city of the Connecticut valley, where lived at that time some 30,000 people. The Springfield council agreed to center its trade and pay

cash at certain large retail stores on condition of receiving a reduction in price, a method of trading now practiced by the Patrons of Husbandry; but other cash customers of the stores began to complain, because they did not obtain similar reduction. Several new councils were organized in the city and vicinity who contributed as councils \$300 and empowered one of their members, Mr. O. S. Brigham, to purchase goods for them at wholesale, as in the dividing houses which had previously been started from time to time in New England. Not a wholesale house in town would sell to Mr. Brigham for fear of a boycott, or, at least loss of trade from other stores. So goods were purchased in Boston without divulging at first the nature of the company for which they were bought. Before long wholesale dealers welcomed the agent of the Sovereigns, who came cash in hand. The goods were sold at just enough above cost to cover expenses. Mr. Brigham charged nothing for his services, and each customer could inspect the bills to see the price paid the wholesale dealers. Trade increased so fast that a store was opened for the whole day, and a storekeeper was hired. The capital, which never exceeded \$750 during the year 1874, was turned over quickly. Flour was ordered by the one hundred barrels from Michigan. The coal dealers of Springfield refused to sell below the retail price of \$10 a short ton. After considerable difficulty a man in Hudson, N. Y., was found who was ready to defy the combination of coal dealers and sell to the coöperators. Six to ten carloads at a time were bought, the customers paying the price at the Springfield store when the order was left. Coal was sold for \$7 a ton instead of \$10, and all the local dealers

had to fall correspondingly. Trade rose to \$4,700 a month. Scarcely any expenses were allowed. Customers were expected to take home their goods or pay a small sum for carriage. Eighteen large tubs of butter were taken away by hand in one evening. One man did all the delivering, except of coal. There was no taking of orders from house to house and no advertising. Trade was confined to the Sovereigns. The fee on joining was \$2 for men and \$1 for women; the monthly dues were 50 cents for men and half that for women. As might be expected, the order grew rapidly.

For greater security of funds it was decided in December, 1874, to incorporate under the Massachusetts coöperative law of 1870, and the act amendatory thereto. A capital of \$3,100 was raised and subsequently doubled; the stock and fixtures of the old store were bought, and on March 10, 1875, the new company began business. The plan of coöperation, which soon became famous as the "Springfield plan," was a natural sequence to that of the previous store, where goods were sold at cost and the capital was furnished by the local councils. By the constitution of the new company the capital was furnished by the members of the order loaning to their respective councils such amounts as they chose, and receiving therefor the council's note, payable at a specified time, with interest at seven per cent. When a council raised in this way the sum of \$100, it elected, by ballot, a member to represent the money, who, on behalf of the council, purchased a share in the corporation, taking the certificate of stock in his own name, but immediately turned over the same to the treasurer of the council as collateral security for

the money placed in his hands. The corporation thus formed, elected directors who chose the managers and assistants in the various departments of the store, which were soon established, such as meat, groceries, clothing, boots and shoes. Sales, which were to be for cash and but little above cost, were confined to Sovereigns. As, however, the saving of \$2 on a barrel of flour sufficed for a membership fee, the order seemed strengthened thereby. One of its officers wrote in November, 1875: "Our purpose is to save, not make money—and this we believe we are doing, or our business would not have so rapidly and steadily increased. Commencing as we did with a stock of only four hundred barrels of flour, some fifteen months since, we cannot but look upon our trade for the present month, amounting to about \$13,000, with feelings of mingled pride and satisfaction." Seven per cent. interest was to be paid, and for a time was paid on stock. It was voted in October, 1875, that goods should be sold at a price sufficient to allow of profits not exceeding two per cent. on gross sales, half to be put in a bank as a sinking-fund and half to be given to the councils represented.

Business increased so fast as fairly to bewilder the directors. A new building, with ample accommodations for council meetings and stores, erected on purpose for the order, was dedicated with imposing ceremonies October 19, 1875, and leased to the Sovereigns for \$2,400 a year.

The balance sheet for 1876 revealed receipts for sales that year of \$134,813.73 thus divided: From groceries, \$77,430.21; from coal, \$18,405.81; from meat, \$33,313.31; from clothing, \$5,624.40—a larger trade than that of any other coöperative store of the

order, while the membership of the seven councils in Springfield and adjacent towns was over 3,000. But in this very prosperity there were seeds of decay. By attempting to sell at cost, and claiming thus to undersell every other store in town, a fierce competition, pronounced by wholesale dealers at that time to be the fiercest in all Massachusetts, was engendered. Some rivals would offer sugars below cost, trusting to profits on other goods to recompense themselves. Others undersold the Sovereigns on other staples. It still remained true, doubtless, that on the entire monthly trade of a family the coöperative company furnished the best bargains, but the mass of customers, unacquainted with the principles of coöperation, and ignorant of how to make their experiment a success, were led to transfer more and more of their trade to private stores, and finally to withdraw from the Sovereigns altogether by failing to keep up their dues. As the store could only sell to Sovereigns, while they could buy anywhere, trade began a rapid decline.

But there were other causes of failure. The method of raising capital by councils rather than by individuals was joined with a provision that the directors of the store should be elected by the councils, and not by those who in each council contributed to the purchase of shares. In consequence, very much such a state of things existed as is advocated by some socialists, viz.: An industry managed by the votes of a democracy, by far the larger part of which has contributed nothing to the capital stock. Whatever may be the possibilities of such a system, the Springfield attempt was a decided, and it would seem, inevitable failure. Directors were elected, and managers and

clerks in the various branches of the store were chosen who knew nothing of the business. Carpenters and old employés of the United States Armory were suddenly transformed into managers and clerks of a rapidly growing and little understood business. At regular intervals the directors engaged different ones of their number, and sometimes fair book-keepers, to inspect the accounts of the various agents and managers in the store. Never, I am told by one of the leading directors, did any two inspectors or auditors agree in their report, or find any way of balancing the accounts. Each agent claimed to have a different "system" of book-keeping. Certainly, no auditor professed to understand the books. After the store failed in 1879, it was found that, contrary both to the constitution and the orders of the directors and without their knowledge, thousands of dollars worth of goods had been sold for credit and never paid for. It is believed on good grounds by some of the directors that dishonesty among the employés was also practiced. When the store was doing a business of \$4,700 a month under Mr. Brigham, early in 1875, only two clerks and one team were employed. With little more than twice the trade more than ten clerks and six teams were employed two years later. The expense for labor in 1876 was \$7,810.61, and for teams \$1,023.51. The total expenses were nine per cent. of the sales, to say nothing of the depreciation of goods on hand. The trade expenses in 1,153 coöperative societies of the United Kingdom in 1883, reporting a trade of £28,089,310, were only six per cent. of their sales. What economy there was attempted was in the wrong direction. One thousand dollars were paid to the manager, but many thought

even that too high. A mistake was made in attempting too many kinds of business. A costly, stylish lot of clothing and caps were put into the clothing store and met with poor sale. Attempts were made to amend the constitution. After 1876 manager and clerks were paid a fixed percentage on sales, instead of salary and wages. In April, 1878, trade was thrown open to the public. Already in October, 1876, a committee reported in favor of changing to the Rochdale plan of coöperation to be explained hereafter, but the report was not acted upon until 1878, when a complete change was made in the entire constitution. The Rochdale plan was adopted with sales at regular retail prices, and with a division of profits in excess of three per cent. on capital among customers, according to their trade. The \$100 shares broken up into shares of \$5 each were to be owned by individuals. But it was too late to stay the downward course. On January 22, 1879, the corporation voted to dissolve, having sunk a large portion of its capital. Coöperation received a blow from which it has not yet recovered in the Connecticut Valley.

Such is the story of many other misguided attempts at coöperation by men too ignorant or selfish or disinclined to coöperate. Yet the Springfield experiment was not wholly a failure. It contributed largely to induce cash trade and low prices in all this section of country, and thus did incalculable good to the laboring classes. Said one of the directors: "Many persons to my certain knowledge, who had always been behind, and thought they could not leave the old store because they were behind, and whom I induced to transfer their trade to the Sovereigns, lived

economically and paid their old bills out of what they saved from cash trade with us." So little discouraged is Mr. O. S. Brigham, the pioneer of the Springfield enterprise, and now partner in a large wholesale fruit business, that, in answer to the question whether he still believed a coöperative enterprise could meet the keen competition and low prices now prevailing, replied: "You give me one hundred families who will be true to their best interests and I will beat any store in town."

THE ROCHDALE PLAN.

The Sovereigns seem to have been the first to introduce into America the Rochdale plan of coöperation, which has proved so superior to other forms wherever tried, but which will not "run itself" any better than other systems, as many have found to their sorrow. The essential improvement of this plan over others is in its provision that goods are sold at regular retail prices, and any profits above what is sufficient for a reserve fund and interest on capital are paid to customers annually or semi-annually in proportion to their trade for the period, though stockholders may receive a larger per cent. of dividend on their trade than outsiders. The other provisions, such as shares of small value, limitation of the number anyone can hold, and the allowance of but one vote to a stockholder, independent of his shares, are common to other systems.

In his address to the National Association at Washington, March, 1878, President Earle thus referred to some of the superior features of the English system:

"It is only by the exercise of frugality that the workingman can be enabled to surround himself and his family with the com-

forts of life. Coöperation will not benefit him if he does not cultivate provident habits. It is because the Rochdale plan of coöperation encourages these habits that I advocate its adoption in preference to all other plans. It is found that of the seven and one-half millions of dollars annually saved by the English coöperative societies, about sixty per cent. of this sum of 'dividends on purchases' is left in the store and converted into capital."

Great efforts were made by the National Council and by its lecturer, John Orvis, to spread a knowledge of the system of distributive coöperation that had proved most successful in England. Under their sanction, and to secure uniformity among the councils, a plan for the organization and management of coöperative stores was prepared by John Orvis and widely distributed, for \$5 a hundred copies, which might well be studied to-day by every one interested in the subject. Only the omission of a few references to the now extinct organization of Sovereigns of Industry is needed to make it conform to existing conditions. In sending out the plan the National Council thus summarized it:

"1. Allow but one vote to a shareholder, without regard to the number of shares held.

"2. Shares to draw a minimum rate of interest.

"3. Dividends to be made only on purchases, and that quarterly.

"4. Every member of the order entitled to full dividends on purchases, provided the directors may retain such dividends in their discretion, until the same shall amount to at least one share of stock.

"5. Shares not to exceed \$5 each, unless required otherwise by statute.

"6. Dividends to non-members one-half the profits on their purchases.

"7. Sell at current prices—the same price to members of the order and the general public—thus disarming opposition.

"8. Look after the interests of the store as strictly as if the store were an individual property.

"9. Choose persons worthy of your confidence for managers—then give them your hearty support."

It was also provided that the directors could obtain loans for the business of the association by a vote of three-fourths of the shareholders, and to an amount not exceeding two-fifths of the actual capital of the association. Shares could be transferred to any one approved by the directors, but must first be offered to them.

This was the plan on which nearly half of the Sovereigns' stores started, and on which nearly all that succeeded were founded.

SUCCESS AND FAILURE OF THE SOVEREIGNS.

Before describing any of the successful examples of the Rochdale plan in New England it may be well to finish our account of the order of the Sovereigns, which, in spite of its failure as an organization, gave birth to many existing coöperative enterprises. Annual sessions of the order were held from 1874 to 1879 inclusive. From the annual official reports at these sessions, and from the pages of the *Bulletin*, the official organ, which was published for two years in Worcester as a 16-page monthly paper, the following facts and tables are gathered. As it is useful to compare sections, and the matter given cannot elsewhere be found in printed form, I have in a few cases exceeded the proper bounds of this paper by including tables or summaries of other states—

	1874.			1875.			1876.			1877.			1878.		
	No. Councils Re- ported.	No. Councils Sup- posed to Exist.	Membership Re- ported.	No. Councils Re- ported.	No. Councils Sup- posed to Exist.	Membership Re- ported.	No. Councils Re- ported.	No. Councils Sup- posed to Exist.	Membership Re- ported.	No. Councils Re- ported.	No. Councils Sup- posed to Exist.	Membership Re- ported.	No. Councils Re- ported.	No. Councils Sup- posed to Exist.	Membership Re- ported.
Maine.....	552	19	29	1,518	86	48	1,801	24	30	1,051	10	.....	580
New Hampshire.....	887	9	13	1,115	15	20	946	.....	.....	.....	.....	.....	.....
Vermont.....	406	10	11	932	3	14	280	.....	.....	.....	.....	.....	45
Massachusetts.....	9,767	117	155	12,137	60	131	4,024	48	91	3,428	18	.....	2,118
Connecticut.....	4,855	30	49	3,816	14	38	475	1	29	23	1	.....	41
Rhode Island.....	2,698	21	26	1,851	8	12	396	7	8	174	3	.....	22
New York.....	2,234	7	18	516	21	29	1,196	20	26	1,196	8	.....	384
New Jersey.....	220	15	29	1,048	14	39	1,076	11	15	458	10	.....	458
Pennsylvania.....	48	60	2,987	43	70	2,291	31	74	1,395	20	.....	1,203
Ohio.....	19	31	1,157	38	62	2,403	17	17	1,159	12	.....	681
Illinois.....	4	6	208	1	5	78	.....	.....	.....	.....	.....	.....
District of Columbia.....	3	8	339	11	11	1,076	.....	.....	.....	.....	.....	964
Maryland.....	1	2	61	.....	.....	.....	.....	.....	.....	.....	.....	.....
Michigan.....	1	3	55	.....	.....	.....	.....	.....	.....	.....	.....	114
Wisconsin.....	1	6	14	.....	.....	.....	.....	.....	.....	.....	.....	.....
Minnesota.....	3	7	206	.....	.....	.....	.....	.....	.....	.....	.....	.....
Kentucky.....	1	1	24	.....	.....	.....	.....	.....	.....	.....	.....	.....
Elsewhere.....	22	.....	951	11	.....	589	2	.....	60
Total.....	21,619	310	454	27,984	278	479	16,993	170	290	9,673	101	.....	6,670

It will be noticed that at the height of its prosperity in the winter of 1875-6 there were reported

to the National Council 27,984 members in three hundred and ten councils. If the same average of ninety to a council held true of the unreported councils, the entire membership must have been over 40,000. Of those reported, three-fourths were in New England and forty-three per cent. in Massachusetts.

Still more interesting, though far less complete, are the trade statistics. In December, 1875, one hundred and one councils reported that they had in practice some method of supplying members with goods. Of these, twenty-six councils distributed goods at cost, twenty gave dividends on purchases. The remaining fifty-four that reported had arrangements probably with ordinary private stores for reductions on the cash trade of members. The amount of capital invested in trade and owned by individual members was \$30,527; the capital owned by councils as such, \$5,197, of which nearly all was returned by the Springfield store. The estimated expense saved by members on account of the influence of the order in reduction of prices and dividends on purchases was fifteen per cent.

In his annual address before the National Council at Syracuse, N. Y., March 20, 1877, President Earle thus reported:

“Out of the number of councils reporting [in the United States], I have selected 94 having a membership of 7,273 that, with an average capital of \$884, did a business last year of \$1,089,372.55, at an average saving to the members of 14 per cent., or a profit of \$152,512, equal to a saving of \$21 to every man and woman belonging to those councils. If we reckon the initiation fee at \$2 (and for women it is only \$1, and we notice that there are 2,812 women already reported as members), and the annual dues at \$2, which is a large estimate, we have the net benefit to each member above reported to be \$17 for the year. It is safe to assume that the unre-

ported sales during the past year will swell the amount [of trade] to at least \$3,000,000, which at the same ratio of profit as above reported would make a saving of \$420,000. Again, the returns show that the average capital of each store (\$884) has been turned over once in 23 days during the whole year. Our coöperative store at Worcester, Mass., turned over its capital 25 times the past year, or once in about 12 days."

A large portion of the trade was returned as on the Rochdale plan, with capital owned by individuals, in \$5 shares. A capital of \$86,796 was furnished by members and \$14,224 by councils, \$6,800 being in Springfield. Only 41 councils were reported for 1876 as confining their trade to members. The president roundly berated the 141 councils which did not hold "public meetings or sociables," and the 184 which did not have "literary meetings." Education was rightly deemed by the leaders to be as essential as organization.

At the next annual session at Washington, March, 1878, the reports of trade statistics were very meagre. Forty-five councils reported an aggregate trade in 1877 of \$750,000. Out of the thirty-five councils reporting their capital employed, which amounted to \$58,000, thirty-two councils reported their capital as owned by individual members and only three as owned by the councils. Thirty-two stores sold to everybody and confined their trade, which with two exceptions was restricted to "club orders" to Sovereigns only. Next to Springfield, the ten Sovereign stores doing the largest business in 1877, and all organized on the Rochdale plan, were the following—

Location of Store.	Capital.	Trade.
Natick, Mass.,	\$2,300	\$58,000
Clinton, "	3,600	40,000
Webster. "	2,200	38,000
Greenfield, Mass..	2,200	38,000

Location of Store.	Capital.	Trade.
Kingston, Mass.,	6,000	33,000
Worcester, “	1,300	28,000
Berwick, Me.,	2,500	30,000
Utica, N. Y.,	2,000	26,000
Birdsboro, Penn.,	2,400	25,000
Akron, O.,	1,600	25,000

Of the above seven in New England, three—at Webster, Kingston and Worcester—survive. I am not informed relative to other sections. These ten stores in 1877, with an average capital of \$2,630, (all furnished by individual members in \$5 shares), averaged a business of \$34,000; *i. e.*, they turned over their capital thirteen times a year.

Like many another association, this of the Sovereigns had grown too fast and been joined by too many ignorant, discordant elements to bear the shock of adversity. The severe and long-continued hard times, from 1874 to 1879, began to tell upon the order. Members unable to get work could not pay cash, and either left the association or induced local councils to grant them credit. Although not fully recognized at the time, this cause is now held by the old leaders of the movement to have caused the downfall of the national organization in 1879–80. The finances were crippled even in 1876, and the members of the local councils were so indisposed to assist in propagandism that the per capita tax to the National Council was reduced from twenty to sixteen cents. Receipts in 1876 fell off thirty per cent., and the services of the able lecturer, John Orvis, now of Jamaica Plains, who had organized scores of councils in New England and the West, were reluctantly dispensed with. The salary of the presi-

dent was reduced from \$2,000 to \$1,200, and afterward to little more than living expenses during the days spent in actual service.

Though unanimously re-elected in 1878, President Earle could not longer serve. His strength was exhausted. His patient service had revealed the sincerity of his declaration of the year before, "To me it is a Christian work in which we can conscientiously ask heaven to bless us. Have we the spirit of organization, the resolution to meet difficulties, the courage of self-control, through which alone great movements are made and great reforms are led? Strong convictions precede great actions. He who believes is strong; he who doubts is weak. Clear, deep, living convictions rule the world. The only faith which really saves is that which induces us to save others."

Mr. John Sheddon, of Pennsylvania, succeeded Mr. Earle, but turned his attention more to politics and less to coöperation. But, probably, the dissolution of the order in 1879 would have been inevitable under any guidance. The failure of the national organization did not involve that of the stores, some of which still exist and will soon be considered. The same business depression, however, and lack of intelligent understanding of the benefits and conditions of coöperation, which ruined the national and state organizations, caused the failure of a large number of stores. More than half ceased to be coöperative, but it must be borne in mind that, in many of those that suspended, there was no financial failure. The very prosperity of many of the stores led to the purchase of the stock by a few and a gradual transformation into the ordinary private company.

The reasons of actual financial failure were thus summarized by President Earle in his last annual address, 1878: "Our stores have not failed from any inherent defect in our plan, but because of the injudicious manner in which it was put in practice, or to the treachery of those who tried to turn to their private advantage a project they had originally professed to support." At the last annual meeting of the National Council at Newark, N. J., March, 1879, a committee assigned similar reasons. The incapacity and dishonesty of managers, which they mention, was a natural result of the ignorance among the members and their committees of oversight of the conditions of success, and a result also of the novelty in this country of such experiments, which made it exceedingly difficult to obtain trained managers. It will be noticed that all these are difficulties which time and education may remove, and which they have already in considerable measure done, as will be seen by the account now to be given of existing coöperative stores.

IV.

EXISTING COÖPERATIVE STORES.¹

RIVERSIDE COÖPERATIVE ASSOCIATION OF MAYNARD.

This enterprise was begun at Maynard, Mass., a village of 2,700 population, in December, 1875, by the formation of a council of the Sovereigns of Industry, the impulse being the high prices of the necessaries of life. The various systems of coöperation were adopted in turn by this company, and in the

¹ The assistance of Mr. Michael Twomey, clerk of the county, in the preparation of this sketch, is gratefully acknowledged.

order of time in which they have been seen to be prominent in the rest of New England. Members of the council obtained goods at a reduction from the regular retail dealers on presentation of cards of membership. Then members clubbed together and ordered goods from Boston, where they could buy cheaper by retail than at home. Each person sent a list of what he wanted. Goods arrived in town marked for the different parties, and were delivered by team on payment of the cost. This not proving satisfactory, some 30 members subscribed \$105 as a fund to start a store. Besides this the income from the fees and dues of members were added, and a store was started. Goods were sold at cost. The officers of the council attended to the distribution two evenings in the week without pay. Goods sold thus were fifty per cent. or more less in price, Mr. Twomey claims, than goods retailed by the other stores. Business increased in consequence of an increase of members of the council desirous of getting cheap goods. The store had to be kept open every evening, and a man was hired to tend it. This cautious management, which only incurred expense when business actually demanded it, was one secret of success. Soon the growth of the trade necessitated the opening of the store all day. But there was no system as regards capital or shares, those who subscribed not caring whether they lost or not. No interest was given, but a small profit accrued and was divided on the capital. There being a lack of capital for the business, it was proposed to pay seven per cent. interest as an inducement to get money. This had the desired effect in due time. In 1878 the council seceded from the State Council of the Sovereigns, and put its finan-

cial status on a firmer basis. The association was reorganized and chartered under the laws of the state, with a paid up capital of \$1,500 divided into 300 shares. No one could buy goods heretofore but members. Now it was opened to the public.

The present capital is \$5,000, which the association has just voted to increase to \$10,000. The loan capital, June 30, 1886, was \$10,760.56, on which, of course, the market rate of interest is paid. Shares are \$5 each, and one may at present hold from one to sixty shares. The number of stockholders is 260 and rapidly increasing. Six per cent. is allowed on capital. A yearly depreciation of two per cent. on real estate and ten per cent. on fixed stock is allowed. Ten per cent. of the net profits goes to the surplus until that shall amount to thirty per cent. of the capital. The balance of the profits is divided among stockholders according to their trade. Anybody may join the association on recommendation of the board of directors, by depositing one dollar towards a share of stock. This secures his dividend on trade, which is retained by the association until the share is paid for. All the employés, six in number, have to be shareholders. They are paid a fixed salary and discharged by the directors if inefficient. The present manager had previous experience in managing business.

Some of the regulations governing the action of the directors and the managers, if adopted more generally in coöperative undertakings, would increase the chances of success:

“They (the directors) shall meet once in every two weeks at least, and oftener, if necessary. They shall have the power of removing the clerk and treasurer for malfeasance in office, or for other good cause. On or before the fifteenth of each month they shall make a

statement of the receipts and expenses of the association for the previous month, and a correct copy of the same shall be hung in a conspicuous place in the store for the inspection and information of the members."

In these quarterly reports the attendance of each director at all these meetings is noted.

"The board of directors shall appoint a manager to conduct the business of the association, subject in all things to their direction and control. They may grant him such authority for the use of the money of the association for the purchase and sale of goods as in their opinion the interests of the association demand, and they may enlarge, reduce or cancel such authority at any time. They shall require said manager to keep a correct account of all his receipts and expenditures of money of the association and of all business of said association transacted by him or under his direction. They shall make, or cause to be made, a thorough examination of said manager's books at least once a month, and see that the association is in no way wronged by him. They shall also hire such number of helpers for said manager as in their opinion may be required for the prompt transaction of the business of the association. They shall fix the salaries of said manager and his helpers, and shall have power to discharge or suspend them at any time. They shall also require said manager and helpers, who must be stockholders of the association, to give good and sufficient bonds, acceptable to said board, for the faithful performance of their trusts. They shall cause the manager to turn over his surplus money to the treasurer at least twice a week."

Orders are taken and goods delivered, two horses being employed for the purpose. No secrecy is necessary. Still, few of the customers know the cost of the goods.

Very little trusting is done, unless to accommodate for a few days. The greatest drawback is that the association put up a large building costing \$15,000, the income from which is not sufficient to meet the interest, insurance and other expenses, thereby taking a large part of the profits which would otherwise go to dividends on trade and help increase the business. Goods are now sold at a reasonable margin of profit, and prices are the same to

all. The fifteenth semi-annual report for the six months ending June 30, 1886, is a model of its kind. The sales were \$18,231.26, a gain of \$2,031.23 over the preceding half year. As this increase continues, the next year's trade will be about \$43,000. About one-ninth of the sales are dry goods and the rest groceries. Besides adding \$73.02 to the surplus, which now amounts to \$916.83, a dividend of three per cent. on purchases was declared. The lesson conveyed in the following words of one of the directors and officers of the association is noteworthy:

"In our town is a woolen mill employing 1,000 hands, which commenced paying weekly wages on the first of May, and the sales at our store have steadily increased every month since. Previously it was monthly pay, and all the other stores trusted and charged higher prices than we did. Consequently, when people could handle their pay oftener, they went where they could get cheaper and better goods, which is the cause of our increase. During the ten years of our existence we have saved over \$10,000 for our members. . . . We were strongly opposed by the other storekeepers for a long time, and they tried to boycott and slander us all they could, but now finding themselves on the verge of ruin, with their trade almost all gone, they have nothing to say."

THE NEW BEDFORD COÖPERATIVE ASSOCIATION.

Very similar is this association for the sale of groceries and provisions in New Bedford, Mass. First came a dividing store, where goods previously ordered and purchased in bulk at wholesale prices were divided among the members at cost. Then came a union with the Sovereigns, with a reorganization and charter, January, 1876. The amount of capital has been \$3,000, in shares of \$10 each, though much less at the beginning. The present number of owners of the 300 shares is 94. In August, 1886, it was voted to increase the capital to \$10,000, with a view to buying or building a suitable

store. More than half this new capital has already (December, 1886), been subscribed, and the number of stockholders is thereby largely increased. No one person can hold more than 50 shares. Interest is paid on share-capital at the rate of seven per cent. a year. Business is growing, and last year (1885-6), amounted to \$48,000. A dividend of nine per cent. was paid on purchases. Prices to all are the same. All profits after deducting general expenses, depreciation and interest on share capital have been divided equally on the purchases of all. Hereafter non-members will only receive one-half as much per cent. dividend on their purchases as do members. Any purchaser wishing to become a member and to receive the full amount of dividend on his purchases, can do so on payment of one dollar on account for a share, and by subscribing not less than one dollar a quarter, or allowing the dividend to remain until one share of \$10 is paid for. Special effort is made to have all shareholders trade in the association. As most of the customers are working people, and receive their pay weekly, one week's credit is given.

The secretary, Wm. Reynolds, writes:

“For the whole ten years we have been in existence we have lost, I think, about \$600; five-sixths of that amount was lost in the first six years. Up to within three years and a-half we suffered a good deal through changing of managers. The present manager took charge three years and a-half ago, and has given good satisfaction. He is a member who feels as much interested in the prosperity of the association as he does for matter of wages.”

THE COÖPERATIVE STORE COMPANY OF SILVER LAKE.

It may be interesting to notice the method of coöperation and its success in a small place. Coöperation at the small village of Silver Lake, in the town of Kingston, Mass., was begun under the

auspices of the Sovereigns of Industry, June 14, 1875, and incorporated in May, 1877. The poor quality and the high prices of many articles of food at the time were among the causes impelling to this attempt. The enterprise was started in a sparsely populated locality with a meagre capital of \$460, which has since grown to \$1,800, owned by 40 stockholders in 360 shares of \$5 each. There is also a reserve fund of \$800, the limit required by law. The annual sales of late have been about \$10,500. The manager, who has held the position from the start, and has had previous business experience, buys for the store and has a general oversight of the business. Besides him there is employed only a salesman, or storekeeper. There have been three different storekeepers in eleven years, and only one had any previous knowledge of the business. Experience, however, was not so important where the manager made all the important purchases. At first only shareholders participated in the profits, but any one could become such when able to purchase a share, if approved by the directors and elected with less than three negative votes by the stockholders. Now all profits, after payment of six per cent. interest, are divided among all the patrons, whether members or not, according to their trade. Three thousand two hundred dollars have been thus distributed. This dividend for the six months ending October 1, 1886, was small, being only two per cent. on trade, but will hereafter be more, as no more is required for the sinking fund. The entire expense last year on a trade of \$10,385.01 was but \$470.37, or 4.7 per cent. Goods warranted of good quality are sold at market prices for cash. No

secrecy in the management of the business is deemed necessary. A printed report is made semi-annually.

The manager, Henry B. Maglathlin, to whom I am indebted for the above, writes: "The greatest drawback is the want of a coöperative sentiment in the community, and the poverty of the people, which does not allow their trading at a cash store." In the constitution, and in the last report, occur these important words: "A true coöperator has three qualities—good sense, good temper and good will. Good sense to dispose him to make the most of his means; good temper to enable him to associate with others, and good will to incline him to serve them and be at trouble to serve them, and go on serving them, whether they are grateful or not in return, caring only that he does good, and finding it a sufficient reward to see that others are benefited through his unthanked exertions."

DANVERS COÖPERATIVE UNION SOCIETY.

One of the oldest, as well as one of the most successful, coöperative companies in New England, is the Danvers Coöperative Union Society, which was started in 1865 in the shoe-town of Danvers, Mass., on the principal of the old union stores, viz.: sales at cost to stockholders. Until July, 1869, there were no sales to outsiders. At that time the general features of the Rochdale plan were adopted, although advantage was not taken of the Massachusetts laws of incorporation, to be hereafter described, until January 24, 1880.

The capital, as incorporated, is \$5,000 in \$10 shares, thus distributed among 98 stockholders:

29	own	1	share	each.	2	own	8	shares	each.
14	"	2	shares	"	7	"	10	"	"
11	"	3	"	"	1	"	13	"	"
7	"	4	"	"	2	"	15	"	"
10	"	5	"	"	1	"	17	"	"
3	"	6	"	"	7	"	20	"	"
4	"	7	"	"					
					98	"	500	"	"

No one can hold more than 20 shares. A share is always found for one desiring it. Six per cent. interest is paid on stock. After proper deductions for depreciation are made, ten per cent. of the net profits go with the surplus fund and the rest is given to stockholders in proportion to their trade. These dividends have averaged twelve per cent. in the last six years, never running below nine nor exceeding fourteen per cent. The store trusts, though this is acknowledged to be a bad feature. Some losses result, but the temptation to long credit is removed by a provision of the constitution depriving stockholders of interest for the month if their accounts are not settled as soon as the month expires. All the trade of stockholders, whether for cash or not, is recorded by the storekeeper in his own books and on the small pass-books of the customers, that dividends on trade may be fairly divided. The trade of the 98 stockholders is about three-fourths of the whole. While sales of stock must be through the company, anyone is privileged to purchase. The trade last year was \$25,000. It has been more in value, when prices were higher, but never more in bulk. The building which contains the store is owned by the association, and the financial condition is excellent. One delivery wagon is used. Sales are

at market prices, and as the non-stockholder gets no dividends on his purchases and may not care to own a share, other grocery stores seem to flourish in the town. The present manager, Mr. C. H. Giles, was appointed in January, 1886, but was previously an assistant in the store for eight years. Five directors audit the accounts, which are open to the examination of all. While waiting in the store for the manager one evening in September, I fell into conversation with one of the directors, who had been interested in the store since its foundation, 21 years ago, and who became very enthusiastic over the possibility of learning something of similar enterprises elsewhere, and of having the success of this store made public for the first time. As many other coöperators have remarked during this investigation, he considered the greatest need of coöperative enterprises to be a better knowledge of the location, methods and success of each.

THE WEBSTER COÖPERATIVE ASSOCIATION.

The most interesting survival of the Sovereigns is at the manufacturing town of Webster, Worcester county, Mass. Here Artizan Council No. 95, of the Order of Sovereigns of Industry, formed December 15, 1874, still retains its organization, and holds its meetings every Tuesday evening, for social relaxation and for study of coöperative methods, with almost, if not quite, as much devotion to the cause as if the national and state organizations of this once flourishing order were not six years ago things of the past. The old initiation fee of \$2 for males and \$1 for females, and annual dues of \$1.40, are still collected for the use of the council of 330 members, all

of whom own, as a condition of membership, one or more of the 860 five-dollar shares which constitute the \$4,300 capital of the store. Groceries, meal, crockery and wooden-ware are sold. Applicants for membership must be approved by an investigation committee of three, and receive less than three adverse votes on secret ballot by the council. At first the council obtained reduced rates from local merchants, but in 1876 started the store. The number of shares any one can hold is limited to fifty, but, as just noticed, the stock is widely diffused. It can only be owned by members of the council. The trade has grown steadily from \$46,976 in 1881 to \$55,920 in 1885, and, judging from the first ten months, will reach \$66,000 in 1886. Goods are sold for cash only and at market rates. After payment of seven per cent. as interest on capital, the remaining net profits are given to the 330 members of the council, according to their trade. The trade of outsiders (about one-fifth of the entire trade), is welcomed, but no special inducement is extended save, perhaps, the probability of greater freedom from adulteration than at other places. Last year a dividend on trade was declared of \$3,750, being a return of nine per cent. on the trade of the council. The first manager was inexperienced and unsuccessful. The remaining two were experienced and successful. The third and present manager, Mr. Joseph Arnold, who was chosen on the death of his predecessor, "has had twenty years experience," writes Mr. J. Reilly, one of the directors, "hence the success of the last three years."

LOWELL COÖPERATIVE ASSOCIATION.

This most flourishing company, organized in 1876,

at Lowell, was also an outgrowth of the Sovereigns of Industry. It has gradually increased its capital from \$1,000 to \$10,000, which in \$5 shares is now held by 500 members. No one can hold more than 20 shares. The trade for the first six months of 1886, according to the secretary, Mr. D. Willman, was, groceries, \$21,211, coal, \$4,000. After deducting ten per cent. of the profits for the sinking fund, which is now nineteen per cent. of the capital, and after paying six per cent. interest on the capital, \$893.40 was paid to full members, being a six per cent. dividend on their purchases, and \$24.03 to members who were not full shareholders, as a four and a-half per cent. dividend on the purchases made by them; for any person on payment of twenty-five cents, if approved by the board of managers, may have placed to his credit three-fourths of the per cent. paid to full members on their checks. When it amounts to a share, a certificate of stock is issued. Non-members, whose purchases are about one-third of the whole, receive no share in the division of profits.

When a member dies the value of his shares is paid to the heirs. By one provision of the constitution, which has scarcely been modified since its adoption under the auspices of the Sovereigns, no intoxicating liquors are to be bought or sold by the association. The manager and nine employés are paid a regular weekly wage. The manager had no previous experience, but the success of the business seems to indicate that a good choice was made. Goods are sold at market prices. Some trusting is done. The officers state: "We find it an evil and are doing our utmost to abolish it."

THE SOVEREIGNS' COÖPERATIVE ASSOCIATION OF
WORCESTER, MASS.

This store, started by the Sovereigns in 1875, with a capital of \$1,500, in \$5 shares, has increased it to \$2,500, distributed among 115 persons. The trade in groceries is from \$25,000 to \$30,000 yearly. Five per cent. interest is paid on stock. One-tenth of the net profit is reserved as a surplus, and the rest is divided *pro rata* on trade, giving one-half as much per cent. to the trade of non-members as to that of stockholders. This dividend has ranged from one-and-one-half to seven per cent., but averaged six per cent., which it has been for the last two years. The manager, who had had four and one-half year's previous experience, has held his present position since the store was opened.

THE PROGRESSIVE COÖPERATIVE ASSOCIATION OF
WORCESTER.

Almost opposite the building of the Sovereigns' Coöperative Association is that of the Progressive Coöperative Association. In fact, in this home of President Earle, of the Sovereigns, there are to-day five prosperous coöperative stores, two being conducted by and for the Swedes of the city, with an increasing trade from year to year. The Progressive Coöperative Association, started in May, 1883, with \$525, in \$5 shares, has now a capital of \$4,000 in the hands of 99 persons. The sales in 1884 were \$23,000; in 1885, \$37,000. After paying five per cent. interest on capital, and reserving somewhat for other purposes, the rest of the profit is divided among stockholders *pro rata* on their trade. A ten

per cent. dividend was thus given in 1885, and a dividend of about fifteen per cent. will be declared in January, 1887. Goods, it is claimed, are sold a little under regular prices. One man with a large trade took a \$10 share and left all dividends and interest, as many do, in the store, and January 1, 1886, after two years and four months, it amounted to \$118.43. A dozen at that time had received over \$50 on a \$10, or in some cases \$5 investment. Whenever the directors desire to increase the number of stockholders without increasing the stock, they may, after thirty days' notice, enforce the withdrawal of the excess over 20 shares owned by any stockholder.

A most successful coöperative store is the

PLYMOUTH ROCK COÖPERATIVE COMPANY,

at Plymouth, Mass., which commenced business March 10, 1877, with a capital of \$3,375 in \$15 shares. For the first three or four years profits were added to capital, which is now more than \$4,000. For the past six years eight per cent. dividends have been paid to stockholders, and all the rest of the profits has gone to patrons in the form of dividends on their trade, without regard to whether they owned stock or not. A dividend of six per cent. on trade, which now amounts to \$42,000, is usual.

CONNECTICUT STORES.

There are coöperative stores at Torrington, Birmingham and New Britain, Ct. THE TORRINGTON STORE, with a yearly business of \$6,000, has a novel method of dividing profits. After paying seven per cent. on the \$8,000 capital, the per cent. borne by the profits to the total trade is determined, but that part which might thus go to those not financially interested in

the store is not paid them, but put into the surplus fund, which now amounts to \$3,500. The financial supporters of the store who receive dividends on purchases are of two classes—stockholders and patrons. A patron is one who has paid \$2 to the company. He has no vote among the stockholders, but has an equal percentage of dividend on his trade. His \$2 fee goes into the surplus funds. This company began as a branch of the Sovereigns in 1874, and was organized as a store in 1875 with \$1,000 capital. This was increased as above in 1881, when the store organized under the joint stock laws of Connecticut. No one can hold more than 12 shares. The secretary, Mr. Herman W. Huke, writes that the dividends on purchases to stockholders and patrons has averaged five and-a-half per cent., payable semi-annually, for the four years ending January 1, 1887. The company never has changed the manager. Trade, except in very rare cases, is all cash.

THE SOVEREIGN TRADING ASSOCIATION at Birmingham, Ct., has a yearly trade of \$15,000 and a capital of \$1,050, besides a surplus. The par value of a share is about \$10.50; "the inventory value is \$55 and no share for sale," writes the president, Mr. W. V. Bowman. The 84 shares are in the hands of as many stockholders. Goods are sold at a low price to all for cash. No dividends are given, even to stockholders, but they receive ten per cent. discount on all purchases. These discounts often exceed in one year the entire par value of the stock.

THE SOVEREIGNS' TRADING COMPANY, dealers in groceries and meats, at New Britain, Ct., with a trade of about \$75,000, declares no regular dividends on

the 200 shares held by its 200 members. Ten per cent. dividends are paid on purchases to members, and five per cent. to non-members. On recommendation of the board of directors and the vote of a majority of the members, a dividend may be paid on the stock. Seventeen dollars and fifty cents a share was thus paid in 1885, but this was unusual. The regular guaranteed dividends on purchases is found to be sufficient inducement to the ownership of stock. Membership, which is limited to 200, is always full. Business was begun on this plan in 1876 with \$250 capital. The inventory in July, 1886, revealed assets of \$12,700. The president, John B. Dyson, writes: "Our trade is increasing. We opened up in August last (1886), a coal and wood yard. Our store is reckoned among the leading stores in the city. Our prices are used and quoted by other dealers, so that we virtually set the prices."

ACUSHNET COÖPERATIVE ASSOCIATION.

This company, located at New Bedford, Mass., I have not, unfortunately, been able to visit, but the treasurer, Mr. Sylvanus Bennett, has given me a few facts about this interesting enterprise. Beginning in September, 1859, and therefore third in age of the coöperative stores in New England, it has gradually gained in strength until now it has a capital of \$6,875 in \$25 shares, owned by 107 shareholders. There is also a surplus amounting to \$5,288. During the last seven years, beginning with 1880, the dividends on this capital have averaged 27 per cent. Since 1869 the dividends paid have amounted to \$38,088. There is no dividend on purchases. The secret of this great success is partly the way expenses have been

kept down. With a trade of from \$60,000 to \$70,000 annually, no team has been run, and only \$3,000 has been spent for labor. A very little trusting is done, but so carefully that only \$400 has been thus lost in the past 27 years.

MAINE STORES.

At least two coöperative stores in Maine (and probably more), were started by the Sovereigns: THE LEWISTON COÖPERATIVE SOCIETY of Lewiston, and THE DEXTER COÖPERATIVE store of Dexter, Maine, which pay interest on capital and dividends on the purchases of stockholders. The Dexter store, with \$4,000 capital, has paid from 4½ to 12 per cent. dividends on the trade of its 188 stockholders and reports a growing business.

THE LISBON FALLS COÖPERATIVE ASSOCIATION of Lisbon Falls, Me., organized February 16, 1885, with a present capital of \$6,425, has increased its trade in groceries, boots and shoes in eighteen months from \$350 a month to \$2,000 a month, and has been compelled to put up a building of its own, known as the Coöperative Block. Dividends are paid on the purchases of members. Three provisions of the constitution are worthy of notice, though one or more may be found in several other coöperative stores. Credit is given to members for thirty days to the extent of four-fifths of their capital invested. In declaring dividends on trade the directors may exclude from a participation in the profits the sales of such articles as yield little or no profit to the association.

The following announcement is made to other stores:

“We wish it distinctly understood by traders and business men that it is not our intention to run down prices by excessive compe-

tion, as that would be a violation of one of the essential principles of the coöperative system, because, if excessive competition, by depreciating the price of labor's products, is right in theory, on the same principle it would be perfectly right to depreciate labor's wages.

"We take our stand in the market with the intention of doing business in competition with others, on fair and honorable terms, and shall sell at the current rate; but if dealers undertake to run us in prices, they must not find fault if unpleasant consequences should result from their coming in competition with a powerful combination of workingmen."

For the seven months ending September 15, 1886, a dividend of fifteen per cent. was paid on \$8,497, the amount of the members' purchases, which was four-fifths of the whole trade.

KNIGHTS OF LABOR STORES.

In many places in New England the Knights of Labor have been organizing during 1886 coöperative stores, but they have not yet been running long enough for one to judge of their prospects of success.

THE CLINTON KNIGHTS OF LABOR COÖPERATIVE SHOE STORE belongs to the three Knights of Labor assemblies of Clinton, Mass., who put in \$600 capital and opened a store the first of December. In the first four weeks \$600 worth of goods were sold. Any profits will go to the local assemblies, but the peculiar feature of the store is the reduction of ten per cent. in price to all members in good standing. Whatever may be the fate of the store, the effect upon the local assemblies has been remarkable. Whereas before the opening of the store many members were backward in payment of their dues, now the 1,500 Knights are prompt in payment, that they may show their membership cards and obtain their discounts at the store.

SWEDISH STORES.

THE SWEDISH MERCANTILE COÖPERATIVE ASSOCIATION of Worcester, Mass., began December 1, 1884. It now has a capital of \$2,300, in \$5 shares, owned by about 96 persons. The first year no dividends were declared, but in 1886, in a less expensive, though good location, under the management of Mr. A. Johnson, a dividend of ten per cent. was paid to the stockholders. The trade was \$19,000, but there is no dividend on purchases.

Older by two years than the above is the FIRST SWEDISH COÖPERATIVE COMPANY of Quinsigamond, a suburb of Worcester. A dividend is here paid on trade; the annual trade amounting to somewhat over \$30,000. Six per cent. interest is paid on the \$3,000 capital.

ADAMS COÖPERATIVE ASSOCIATION.

Coöperative stores on the most approved principles are constantly opening. One of the most promising is the Adams Coöperative Association, for the sale of meat, at Adams, Mass. With 300 five-dollar shares in the hands of 175 members, and a trade already of \$1,200 a month, although only opened September 28, the directors, December 17, 1886, write that they find the profits for the first quarter are 18½ per cent. on the capital. After paying six per cent. interest on the capital the remainder is to be divided according to purchases—non-members receiving half as great a per cent. as members.

THE ARLINGTON COÖPERATIVE ASSOCIATION.

The last distributive association on the Rochdale plan to be described in these pages is at Lawrence, Mass. Although only the second year closed Octo-

ber 27, 1886, the success achieved well shows what intelligent workingmen can do in this direction. The clerk, Mr. Geo. Dewhirst, writes: "We find no difficulties in management, many of us being familiar with the Rochdale plan. We do not rely solely upon a professional manager," yet the present manager was trained in England to his work. The association, whose first year's history has been well described in the Massachusetts Labor Report, issued in March, 1886, is no longer confined to employés of the Arlington Mills, but is open to membership from the general public on nomination by a member and acceptance by the board of directors. Shares are \$5. After paying five per cent. interest on capital and ten per cent. of the net profits to the reserve fund, which is invested in stock of the Arlington Mills, until there is a surplus of 30 per cent., the balance is divided on trade, one-half as much going to non-members as to members. The number of members grew from July 1 to October 1, 1886, from 308 to 351, and the paid-up capital from \$4,360 to \$5,755. During this quarter the gross sales were:

On merchandise.....	\$9,637 97
“ dry goods.....	233 77
“ boot and shoe account.....	640 42
“ fuel.....	2,226 02
	\$12,738 18

A dividend of eight per cent. to members and four per cent. to non-members was given. The directors in their report earnestly request members to allow their dividends to remain to their credit, saying: "This is one of the best and surest ways for workingmen of small means to accumulate savings."

Acting on the suggestion of Mr. Dewhirst, one of the directors, that a copy of the balance sheet of this

TREASURER'S REPORT FOR QUARTER ENDING SEPTEMBER 30, 1886.—CONTINUED.

LEDGER BALANCES.

Merchandise in stock.....	\$2,304 71	Sinking fund.....	\$1,200 00
Dry goods in stock.....	161 40	Share capital, 1151 shares.....	5,755 00
Fuel in stock.....	442 55	Educational fund.....	91 00
Fixtures.....	800 00	Installment accounts.....	64 22
Real estate.....	1,250 00	Interest and dividends for previous quarters remaining uncalled for.....	\$271 67
Cash.....	3,360 41	Interest quarter ending October 1, 1886.....	59 66
		Members' dividend.....	877 52
			1,208 85
	<u>\$8,319 07</u>		<u>\$8,319 07</u>

Respectfully submitted,

FRANK FARR, *Treasurer.*

Examined and found correct.

GEORGE HARTLEY, *Auditor.*

In accordance with the custom begun a year ago, we tabulate below the summary of the year's business by quarters. The average capital for the year measured by the amount of interest paid equals \$3,840.

QUARTERS—13 WEEKS EACH.	Total Sales.	Gross Profits.	Salaries, Expenses & Interest.	Net Profits.	Dividend Divided.	Carried to Sinking Fund.	Interest Paid on Capital.	Total Return on Capital.
Fifth.....	\$10,543 00	\$1,832 64	\$1,029 17	\$ 803 47	\$684 05	\$119 42	\$39 24	\$ 842 71
Sixth.....	11,547 74	2,140 15	1,085 12	1,055 03	\$30 03	225 00	43 67	1,098 70
Seventh.....	10,556 02	1,981 48	1,089 40	892 08	711 08	181 00	49 50	941 58
Eighth.....	12,738 18	2,106 24	1,086 50	1,019 74	893 24	126 50	59 66	1,079 40
Totals.....	\$45,384 94	\$8,060 51	\$4,290 19	\$3,770 32	\$3,118 40	\$651 92	\$192 07	\$3,962 39
Totals last year, 54 weeks	38,194 94	6,120 04	3,846 98	2,273 06	1,949 98	323 08	173 24	2,446 30
Totals for two years.....	\$83,579 88	\$14,180 55	\$8,137 17	\$6,043 38	\$5,068 38	\$975 00	\$365 31	\$6,408 69

Percentages for this year	1776-100 per cent on sales.	946-100 per cent on sales.	831-100 per cent on sales.	8 per cent on members checks and 4 per cent on non-members.	1729-100 per cent of net profits, besides initiation fees.	5 per cent, annum on capital.	103-100 per cent, on average capital.
Percentages for last year	162-100 per cent on sales.	107-100 per cent on sales.	595-100 per cent on sales.	624-100 per cent full, 312-100 per cent half.	1426-100 per cent of net profits, besides initiation fees.	5 per cent, annum on capital.	7568-100 per cent full.

We would recommend our members to carefully compare this table in detail with the one given in the fourth quarterly statement. You will readily see the progressive gain. The rapid growth in membership and share capital during the past quarter is an excellent indication of future prosperity.

Number members July 1st, 1886.....308 | Share capital paid up.....\$4,360 00
 Number members October 1st, 1886.....351 | Share capital paid up..... 5,755 00

In accordance with permission granted your board at last quarterly meeting, we have purchased land and are now erecting coal sheds alongside the B. & M. R., near Manchester street. We hope this will enable us to avoid the difficulties we have heretofore found in supplying coal.

Respectfully submitted,
 W. M. D. HARTSHORNE, *President.*

RATIO OF EXPENSES TO TRADE.

It will be noticed that the rent is only \$284 a year, the wages for a trade of \$50,000 are less than \$2,400, and the entire running expenses for the last quarter, including taxes, insurance and a liberal allowance of \$56.90 for depreciation on fixtures, but not including interest, were only eight per cent. of the sales. All directly concerned in coöperative stores should mark this carefully, as lavish expenditure for rent, teams, numerous employés and a "stylish" appearance wrecks more coöperative enterprises than any other cause. The idea of coöperation is substance rather than shadow—the best, purest goods—not display. One of the greatest savings of coöperation comes from the fact that costly plate glass show-windows, location on a main street, employés enough to be able to wait at once on all customers in the busiest hour of the day, and teams to carry home every small article, are not necessary to attract custom. If such be necessary, the first steps in coöperation have not yet been taken. A good, clean, wholesome store, in a reasonably convenient location, and one or two teams to deliver heavy goods, are of course requisite. But where a market is already secured among those banded together in a coöperative experiment, the need of these expensive means of advertising just referred to should no longer be felt. The very essence of coöperative distribution is the dispensing with the wastes of present competitive business. I had not proceeded far in this investigation before discovering that uncalled-for expenditures for rent, wages and other items was the immediate cause of most failures among coöperative enterprises. With the object, therefore, of de-

termining the percentage which all running expenses, including rent, wages, teams, heating and lighting, ice, water, taxes, insurance, etc., could safely bear to trade, the accounts of 11 successful companies were obtained. Where the store was owned by the company, the rent which would have to be paid for it, if in other hands, has been included in the expenses. The results are given in the following table:

NAME OF COMPANY.	LOCATION.	Annual Trade.	Expenses.	Percentage of Expenses to Trade.
Industrial Coöp. Asso.	New Bedford, Mass. }	\$41,803 11	\$3,832 95	.58
Natick Protective Union.	Natick, Mass. . . }	100,176 00	7,883 32	7.8
Beverly Coöp. Asso.	Beverly, Mass. . }	124,901 00	8,134 47	6.5
Sovereigns Coöp. Asso.	Worcester, Mass. }	28,000 00	2,500 00 ¹	9.0
Coöp. Store Co. of Silver Lake.	Silver Lake, Mass. }	10,385 01	408 51	3.8
Progressive Coöp. Company.	Worcester, Mass. }	38,015 00	3,061 83	8.0
Riverside Coöp. Asso. of Maynard.	Maynard, Mass. }	36,000 00 ¹	3,530 00 ¹	9.6
Danvers Coöperative Union.	Danvers, Mass. . }	10,828 14 ²	806 02 ²	8.0
Plymouth Rock Coöp. Co.	Plymouth, Mass. }	42,000 00	3,580 00 ¹	8.5
Division 108.	Salmon Falls, N. H. }	48,000 00 ¹	3,840 00 ¹	8.0
Lisbon Falls Coöp. Asso.	Lisbon Falls, Me. }	24,000 00 ¹	1,440 00	6.0
Aggregate.		\$507,108 26	\$39,017 10	7.7

¹Approximately.

²From June 30, 1886, to December 31, 1886.

Thus in eleven representative and successful coöperative stores, selected without regard to any favorable showing in the matter of expenses, the average percentage of running expenses to trade is 7.7. That

is, trade is thirteen times expenses. The highest percentage, 9.6 at Maynard, is partly due to the confessedly unwise action of the company in erecting and occupying a too expensive building. Even in that case the trade has to be over ten times the running expenses to insure dividends to purchasers. While preparing the above table, the writer was invited to address a company of would-be coöperators who were about engaging to pay \$500 rent and other expenses to the amount of over \$2,000 without a probable trade of more than seven times this expenditure. Fortunately the leaders of the proposed enterprise accepted the logic of facts and will probably begin in a more humble and at the same time more promising way. It cannot be persistently urged that expenses should not exceed one-twelfth of the assured trade.

BEVERLY COÖPERATIVE ASSOCIATION.

It is sometimes held that no form of coöperation save the Rochdale can live. We have seen conspicuous instances to the contrary, though few in number, in the survivals of the old Protective Union stores which sold at cost. The Beverly Coöperative Association, organized at Beverly, Mass., by the Sovereigns in March, 1875, is another instance. This store, which has grown from a capital of \$102 to \$7,000 in \$25 shares and has an annual trade of \$124,900, sells at a very little above cost to everyone and has never tried to earn a dividend. The manager, Mr. B. Larcom, Jr., who was previously a carpenter, seems to have been just the man for the place. He has known how to undersell every store, even if this necessitated selling below cost on some goods

and to make up any losses by higher prices on other lines of goods. By careful calculation all expenses are met, and the stock to-day commands a large premium because of the surplus of \$7,445.98 which has been accumulated and invested in the business. Only one share can be owned by a person. The stockholders are chiefly American mechanics, but hundreds of others, rich and poor, trade at the store. A branch store has just been opened, meat as well as groceries are sold and the trade the past year, 1886, has been \$45,000 in excess of the year before.

COLLEGE COÖPERATION.

HARVARD COÖPERATIVE SOCIETY.

This society was organized by the Harvard students in March, 1882, and has been the model of college coöperation, having been followed by the University of Michigan, Yale, and the Massachusetts Institute of Technology. All members of Harvard University, of the Society for the Collegiate Instruction of Women, or of the Episcopal Theological school, are eligible to membership on payment of a fee of \$2.50 for rent, clerical expenses, etc. October 25, 1886, the membership was seven hundred and twenty. The society is governed by a president, treasurer and eight directors, appointed as follows: two from the Law School, one from each class in college and one each from the faculty and the Divinity School. The society pays the college an annual rent of \$350 for rooms in Dane Hall, and sells for cash and at cost to members, books, stationery, crockery, tennis goods, and other articles of general student use. Wood and coal are delivered, and books are imported from Europe. Second-hand furniture may be sold

for the students on a small commission, and every student, whether member or not, is invited to purchase such. Professors often coöperate with the society by giving in advance a list of the books to be used by their classes. The annual cash business from March, 1882 to March 1886, averaged \$20,000 and is growing, the trade for September and October, 1886, being \$12,000. The manager and assistants are salaried. The subscriptions that helped to start the enterprise have been refunded. An average of five per cent. net profit is made and invested in business. The society now has \$1,650 thus invested aside from the fixtures. Henceforth credit will be given to all members who will deposit cash or other securities and who will file an acceptable bond, signed by two bondsmen for not less than \$200.

Besides this, a large list of associated tradesmen is given in all lines of business where members may obtain reductions of from five to thirty per cent. from regular prices for cash on presentation of their membership ticket.

YALE COÖPERATIVE SOCIETY.

This society, organized February 14, 1885, is so much like that at Harvard as to need no detailed description. The membership has grown from two hundred and fifty to over five hundred. The trade at the cash store is from \$10,000 to \$15,000 a year. The yearly fees, recently reduced to one dollar, contribute to the running expenses, and only enough addition is made to wholesale prices to cover the remainder of the expenses. Cash trade is also promised to tradesmen, who sign a bond of \$100 to give certain reductions to members. Tradesmen are

usually very willing and eager to do this. From trade with these associated tradesmen, two hundred and fifteen students reported an average saving in 5.7 months of 1885-6 of \$10.89, while the savings in this way and at the store ranged from \$25 to \$75. Not only in the matter of selling goods at almost wholesale prices, but in various other ways, such as delivery of college papers and periodicals, publishing notices, checking baggage, furnishing free telephone connections, etc., is the association of great benefit to the college. At New Haven an association of citizens was organized in imitation of that at Yale, and for cash obtains similar privileges.

THE M. I. T. COÖPERATIVE SOCIETY.

In April, 1886, the students of the Massachusetts Institute of Technology organized a coöperative society, with twenty-five cents annual dues, which now embraces six hundred students, or more than three-fourths of the entire number. No store has yet been opened. The members obtain discounts as at Harvard and Yale from associated tradesmen. In all these cases the names of the traders are printed and the discounts given, but some care is taken not to publish it abroad in the community, and thus arouse the unfavorable comment of other customers.

THE BEST FORM OF DISTRIBUTIVE COÖPERATION.

So many have asked the writer during the course of this investigation what was the best form of coöperative stores, that at the risk of repeating a little of what has gone before I venture to refer to what have been found important features. The Rochdale plan is to be preferred, with its dividends on pur-

chases, limited number of shares of five each in the hands of any one person, equality of vote of all stockholders, market prices for pure goods and exclusively cash trade. Expenses should not exceed one-twelfth of the trade. Greater percentage of dividends of trade should be given to stockholders than to outsiders, but any one should be entitled to that full dividend on depositing one dollar toward a share. The dividend, however, should not be paid such a one, but should be added to his credit, until in that way, and by direct payment, a five-dollar share is paid for. By this means men are encouraged to save. Provision should be made in the by-laws for withdrawing at face value the shares in excess of, say ten, or even three, as the directors may see fit, that may be in the hands of the largest stockholders, the exact ones from whom stock is to be withdrawn being decided by lot when such a measure may be necessary to provide shares for those without any who may be desirous of purchasing. By this means a coöperative company will not only exert a wide influence, but will attach to itself a much larger trade than if its stock fall into the hands of a few. It is to be hoped that the time will soon come here, as already in England, when the surplus funds of the retail coöperative stores of a state will be invested in a large wholesale store, which shall grant dividends on its sales. As soon as productive coöperation on the plan of profit-sharing with all employés, as soon to be described, has gained a firm foothold, such enterprises will also furnish places for the investment of surplus funds. Thus the patrons of the coöperative stores may be encouraged to allow a large part of their dividends

to remain in good investments, that shall both bring them good returns and at the same time spread the benefits of coöperation.

V.

PRODUCTIVE COÖPERATION WITHOUT DIVIDENDS TO LABOR.

Thus far only that form of coöperation has been considered which is usually known as distributive coöperation. As the simplest, most easily managed and requiring least capital, the store is among all English speaking peoples the first form of coöperative enterprise. Many varieties may exist; the advantages of the system may be confined to shareholders, albeit a large number, or opened to everyone, and the benefits may be in the form of low prices or dividends on purchases, but saving to consumers is the cardinal object of all reforms in distribution.

Productive coöperation, wherein the laborers own much of the capital and have a voice in the management, is more ambitious and if it prove capable of such expansion as its advocates claim, will contribute greatly to solve the labor problem. The importance and difficulties of productive coöperation were well described by President Earle of the Sovereigns of Industry, in his annual address in 1877, when he referred to it as "the very battle-ground on which the true principles of the grand movement are to be fought out, where the conflicting interests of capital and labor are to be equitably adjusted and, it is to be hoped, permanently settled. The conditions of coöperative production are, however, more complicated than those of distributive, and it will take time

and patience to discover all the methods whereby every person engaged in a manufactory shall be induced to do his best in making himself a partner in the surplus profits. What avails the successful operations and the increasing trade of distributive societies, if the relative position of capitalist and laborer, the employer and the employed, is to remain the same, and the poor toiler is still to be satisfied with the little he can obtain in the general scramble for the wealth which his labor produces?" He advised the stores to invest funds and give their patronage to coöperative manufactories.

The Sovereigns, however, as an organization, went to pieces before the above ideas could be carried into effect.

The first coöperative productive company in New England seems to have been the Boston Tailors' Association Union, organized in 1849 with fifty dollar shares. The stockholders received interest. Those who were at the same time stockholders and workers for at least three months of that year voted on the division of the profits, as appears by the Massachusetts Labor Bureau Report of 1877. Profits were divided annually by this vote among the workmen according to the amount of labor each performed. Sales were for cash. The association thus carried on operations for a few years. Many other such companies, chiefly in the manufacture of cigars, have had a more or less prosperous existence but little trace of them remains.

SOMERSET COÖPERATIVE FOUNDRY COMPANY.

The oldest example of productive coöperation which has survived to the present is the Somerset Coöpera-

tive Foundry Company, organized at Somerset, Mass., October 18, 1867. It may be called a joint-stock coöperative company if such a name is admissible, since it combines the coöperative principle of large ownership of stock by workmen in small shares and with equal vote in the management with the joint-stock principle of dividing profits wholly on stock. The companies of this character in Massachusetts were so thoroughly investigated and ably described in the report of Mr. F. H. Giddings in the Massachusetts Labor Report of 1886 that no attempt at further investigation of them has been made. From Mr. Giddings' report it appears that the Somerset Foundry Company with \$30,000 in \$100 shares, owned by forty-eight stockholders, has been turning out an annual product of \$75,000 and paying a dividend of ten per cent. since 1880. The foundry had been run at a loss in private hands until these moulders bought it up and made it pay dividends after the first year. Thirty of the forty-eight stockholders are employed in the business, and such are given the preference in hiring men. The management can discharge any stockholder, if a poor workman, but have not been obliged to do so. Most of the work is by the piece. Equal wages for equal work is paid to all employés, whether stockholders or not. To quote from the report: "Members individually and the management, as such, declare that they are satisfied that stock owning improves the quality and increases the quantity of work accomplished, and that this goes far to account for the success attained." The members are of steady, saving habits and generally excellent character. The management, as in nearly all coöperative enterprises considered in this work, is

in the hands of directors who choose the necessary officers,—in this case, an agent, treasurer and foreman, subject to the directors.

EAST TEMPLETON COÖPERATIVE CHAIR COMPANY.

This, the second oldest existing coöperative manufacture in the state, was organized October 19, 1872. It has a capital of \$20,000, in two hundred shares, in the hands of thirty-eight persons, mostly of New England birth and descent. Fourteen of these, with ten non-shareholders, are employed by the company. The value of the product is about \$50,000. Dividends of five and six per cent. are paid in prosperous years, and few losses are incurred. A large working capital of about \$1,000 to every employé is considered essential. In this, as in other successful coöperative companies, there have been few changes of management.

THE STONEHAM COÖPERATIVE SHOE COMPANY.

This company, of Stoneham, Mass., where three other coöperative boot and shoe enterprises are located, was organized January 9, 1873. It now has a capital of \$20,000, in eighty shares, in the hands of fifty-seven stockholders. Of these twenty-five work in the mill, and nearly forty others are employed. The stockholders are said to be of all nationalities, and to have always worked harmoniously together. The annual product is \$150,000 and the dividends since 1878 have been, 17, 15, 15, 21, 20 and 6 per cent. The best workmen are employed, whether stockholders or not, but the agent can discharge none of the former without the consent of the directors. The treasurer believes that \$2,000 capital

must be had for every case of shoes made for the jobbing trade. Insufficient capital is the ruin of many a coöperative enterprise.

THE MIDDLESEX COÖPERATIVE BOOT AND SHOE
COMPANY.

The above company located at Stoneham with a present capital of \$15,000 in sixty shares, in the hands of forty-seven shareholders, met with many losses soon after the start in 1875, owing to the failure of certain debtors. Yet the record of dividends is as follows :

1876—9 per cent.	1880—10 per cent.
1877—An assessment of \$26.85 per share to meet losses caused by failure of customers.	1881—10 “ “
	1882—20 “ “
1878—5 per cent.	1883—25 “ “
1879—4½ per cent.	1884—20 “ “

Twenty-five stockholders and eighteen non-stockholders are employed. Nearly all the other twenty-two stockholders are employed in the shoe business. The members are Americans, Irish and French Canadians of good character. The treasurer remarked, “Coöperators must be of good habits, economical and saving. They must belong to the place and have a permanent interest in it.”

As the seven other companies investigated by Mr. Giddings, the American Shoe Company, Athol Furniture Company, Franklin Shoe Company, Kingston Foundry Company, Leonard Foundry Company, Middlesex Shoe Company and the Wakefield Shoe Company, resemble those just considered, they are grouped in the table at the close of this account.

COÖPERATIVE GRANITE WORKS OF SOUTH RYEGATE,
VERMONT.

These works have a paid in capital of \$2,900 in \$100 shares, owned by twenty-three shareholders. Nine of the fourteen workmen are shareholders. There is no limit to the number of shares any one can own. Profits and losses are divided on the shares. The business was started in May, 1885, under peculiar circumstances which are thus described by the secretary, J. D. Grant :

“A number of stonecutters were thrown out of employment in consequence of having organized a branch of the Granite Cutters’ National Union here, and not only were they denied employment by the two firms in the granite business here at that time, but were blacklisted in Barre and other granite centers in Vermont, so that they had no alternative apparently but leave the state. A large proportion of the men were householders and had families living here, and they did not wish to go away for work while there was plenty of it at their own door. And the result was the birth of this little enterprise. But this was only the beginning of tribulation, for no sooner did the aforesaid granite contractors find that we did not intend to leave the state than they hatched a scheme to have us all arrested for conspiracy, because the National Union on learning the treatment we had received had the works of the aforesaid firms declared to be scab shops, and the natural consequence of this was that those who worked there would be held to be *scabs* by all union men. We were placed under bonds, sixteen of us, which have been reduced several times and are now \$200 each, and the case is in the hands of the law to-day, and not yet settled.

“Yearly business \$8,000 to \$10,000. Business growing. But do not consider it beyond the experimental stage yet. There has been great difficulty in securing a center of authority, each one claiming to be his own boss. The management was at first in the hands of a superintendent, but that did not give satisfaction. It was then changed into the hands of five directors, who employ a foreman for the outdoor part of the work, and a secretary and treasurer to keep the books and accounts and take contracts and transact the general business of the company. These officers are all shareholders and are hired by the day. But the expense of running the thing seems to be too much. We started with no cash capital, members putting in their shares as a rule by labor, a certain rate per month. We

have never had enough capital to run the business to good advantage, although convinced that it could be done with proper facilities. We believe coöperation is the missing link between capital and labor, and no matter how many experiments may fail, the ultimate result will be success."

A few other productive companies, mostly of recent origin, with this mingling of the joint stock and coöperative principles, exist in New England, such as the Coöperative Granite Works at Quincy, Mass., the Haverhill (Mass.) *Laborer* and the printing business connected therewith, the Rhode Island Coöperative Printing and Publishing Company of Providence, with a business of \$6,000 a month and rapidly growing, and the

SOUTH NORWALK, (CT.,) COÖPERATIVE HAT COMPANY.

The latter was organized in January, 1885, as the result of a lockout. By the conditions of incorporation the capital is not to exceed \$9,000 in one hundred dollar shares, more than half of which had been raised at the time of my visit to the factory in September, 1886. No one can own more than three shares. The stockholders, mostly Americans, numbered thirty-five and in most cases worked in the business, although the management may discharge anyone for cause. The number employed is from ninety to one hundred in the busy season. Success had been good and the business was said to be growing rapidly, due in part to the patronage voluntarily given hats with the coöperative label by members of labor organizations. The manager, however, Mr. Edmund H. Bush, who was previously a workman, is a capable man, and seems entirely devoted to making the business a success. The book-keeper remarked: "Every book is open to every

shareholder. Some feel themselves a little above everybody else, but no great trouble has been experienced." When the by-laws were adopted it was wisely provided that no dividend should be declared the first year. The company was burned out at the start and again February 22, and in part March 8, 1886, due to causes which it is thought have now been removed. In spite of these losses the company appears confident of success, and when visited were making two hundred dozen felt hats of the Derby style weekly.

In the same town of South Norwalk, Ct., was another coöperative hat company organized about the time of the other, but which ceased to do business in October, 1886. The president ascribes the chief cause of failure to the refusal of the company to pay enough to secure a good manager. He writes: "If a man can conduct a factory he can command high wages in any form, and a coöperative or any other firm will have to pay them. What we ought to have done, and what I wanted, was to get an experienced man for a manager and pay him the same wages that any other firm would pay. I could not carry my point with the board. I think there is where we missed it."

At North Dighton, Mass., the NORTH DIGHTON COÖPERATIVE STOVE COMPANY began July, 1886, with \$11,500 capital in the hands of twenty-seven stockholders, of which seventeen work in the factory with five non-stockholders. Lack of capital is the greatest drawback reported. It is too soon yet to present any results.

The following productive coöperative companies have been chartered this year, 1886, and have in

some cases nearly completed buildings and prepared for soon beginning business. All divide profits wholly among stockholders, none of whom have more than one vote in the management. The companies are :

The Scituate Coöperative Shoe Company, of Scituate, Mass., with \$10,000 capital in \$10 shares. All the officers and probably all the employés will be Knights of Labor.

The Westboro Factory Association, of Westboro, Mass., for making boots and shoes. The capital will be \$12,000 in \$100 shares.

The Agawam Coöperative Shoe Company of Danvers, Mass., with \$5,000 capital in \$5 shares.

North Dighton Coöperative Stove Company, at Taunton, Mass., with an authorized capital of \$11,500 in \$100 shares.

The Knights of Labor Coöperative Boot and Shoe Company, of Beverly, Mass., with \$3,000 capital in \$10 shares.

The Brockton Coöperative Boot and Shoe Company of Brockton, Mass., with a capital of \$10,000 in \$200 shares.

COÖPERATIVE CREAMERIES.

In many parts of New England, Massachusetts especially, are coöperative creameries, which, like some of the companies already described, have certain joint stock and certain coöperative features. A description of one or two of these creameries will suffice: The SPRINGFIELD COÖPERATIVE CREAMERY, organized a little over two years and a-half ago, has now a paid in capital of \$22,000 in twenty dollar shares, part of which is invested in a fine brick building constructed for the uses of the creamery. No one can own more than

fifty shares, or have more than one share for each cow and eight-quart can of milk furnished daily to the association. There are eighty three shareholders among the farmers within nine miles of the city. As in every coöperative enterprise chartered under state law, ten per cent. of the profits go to a reserve fund until that shall amount to thirty per cent of the capital. Ten per cent. is reserved for losses and depreciation of plant, and the rest, not to exceed five per cent., goes to the stockholders. If the business admits of it, any further profits go to the farmers in the form of higher prices for their milk. In 1884-5 the stockholders received five per cent.; in 1885-6 one per cent. About half of the milk and cream is sold and the rest made into butter. Eggs are also bought and sold. Two and three-quarters and three cents a quart is paid for milk. The great reason for starting the creamery was to furnish a steady market to the farmers for their milk. Previously, irresponsible milkmen would run in debt to the farmers, and failing, entail heavy losses upon them. There was naturally great opposition to the creamery by these old milkmen. The creamery had to buy out nineteen old routes at high rates and hire the old milkmen to sell for the new company. They depreciated the milk, however, expecting soon to buy their old routes back. Customers kept dropping off, until last February, 1886, when the creamery overcame these difficulties, and has gradually increased its trade ever since.

At Lowell, a coöperative creamery, with a capital of \$25,000 in twenty dollar shares, was organized in October, 1885, to furnish a regular market for the farmers' milk. Previously, when the milk was not

sold in Lowell, it was left on the farmers' hands to spoil. In remedying such difficulties as these the creameries in all parts of the state seem to confer their greatest benefit rather than in any considerable profits to the shareholders. A very successful creamery seems to be that at Amherst, Mass., where, with a capital of \$2,700 in ten dollar shares, in the hands of sixty-five shareholders, the annual product of butter has grown from \$19,250 in 1883, when it was organized, to \$29,600 in 1884, \$46,225 in 1885, and about \$60,000 in 1886. Six per cent. interest is paid on stock. In many cases, as at Springfield and Conway, patrons of the creamery get all benefits after payment of a certain interest on capital. Creameries are located at Hatfield, Westboro, Lee, Hinsdale, Cummington, Conway, Egremont and Rutland, Massachusetts, and in other New England states. Most of them are of a very recent origin. The supply of milk is generally not large enough to permit of great growth, but there is every indication that these creameries serve a useful purpose and will prosper.

VI.

PRODUCTIVE COÖPERATION WITH DIVIDENDS TO LABOR.

In all cases of productive coöperation thus far considered, as in all coöperative stores, there have been found no dividends to labor as such. No share of the profits has gone to the workmen in proportion to their wages. We have now to consider a development of the coöperative idea to cover this more comprehensive form of profit-sharing. A coöperative company was chartered at Orange in 1879, with \$5,000 capital, for the manufacture of furniture. Ten

per cent. was reserved yearly as a surplus fund, and the rest of the profits went to the workmen in proportion to their pay. Not even interest was paid on capital, but as all the shares save three or four were owned by the employé's little trouble resulted from that. Jealousies, however, arose over the pay of the men, some claiming that others were receiving too much. This led to the dissolution of the company in three years. There was no financial failure, for those who put in \$100 stock received in the three years as dividends on labor, and at the settlement as their share of the property, \$197, and all others received proportionally large returns.

LYNN KNIGHTS OF LABOR COÖPERATIVE BOOT AND SHOE COMPANY.

The Knights of Labor leaders in Massachusetts are planning a great forward movement in coöperative production. Within a year several important enterprises have been started by them. The Boot and Shoe Company of Lynn, under the able management of Mr. Richard Nagle, until his resignation recently Master Workman of District No. 77, of the Knights of Labor, deserves description. In November, 1885, a few interested in the project visited Stoneham and concluded to adopt a different system from that of the coöperative shoe companies, thereby giving labor a direct share in the profits. Returning to Lynn they solicited those who promised to be congenial spirits, putting the shares at \$100 to prevent too large an influx of unsuitable members. There was great difficulty in securing shareholders at this figure but \$5,000 was at last secured, and the company started in April, 1886. Three weeks of that month

were spent in putting in machinery. A rent of \$75 a month had to be paid although no business was done. A market must be made and the leaders looked forward to the July meeting of the stockholders with much trepidation. To their surprise it was then found that in ten weeks they had made \$10,000 worth of goods and were \$200 ahead. The capital is now, January, 1887, \$9,000 in the hands of about sixty persons. Ten shares is the limit anyone can own. There was previously a small coöperative store at Peabody, near Lynn, whose agents came to the Lynn company for shoes to avoid buying prison-made shoes, and at once made arrangements to become a branch of the Lynn Company. The shares of the Peabody store were \$5. The stock was raised to \$2,500 and for every twenty shares one holder was selected to exchange the stock for stock in the Lynn Company, so that the Peabody store serves as a branch. A constantly growing patronage is secured among the Knights of Labor and also among other classes in all parts of New England, for a good shoe is made. Profits are to be thus divided: Ten per cent. goes to the sinking fund; five per cent. interest is paid on the capital stock: ten per cent. of the remainder goes to the Knights of Labor Assembly for a coöperative fund to be used in assisting other coöperative enterprises; forty-five per cent. is to go to capital and forty-five per cent. to labor, in proportion to wages. All the workmen must be Knights of Labor. Over forty are employed, nearly all being stockholders. Shareholders have the preference in securing work, but may be discharged for cause. Workmen who are not shareholders are encouraged to deposit at any time toward a share. The limit of

the capital, according to the charter, is \$10,000 and could all be raised at once, but the balance is reserved for employés. The full amount will, however, soon be used. All the workmen are beginning to own stock. On visiting the works in September, 1886, I found every appearance of success, and learned as one indication of the spirit and sincerity of the manager that he had been offered \$1,200 salary by the directors, but refused to take more than \$1,000. At the first annual meeting, January 3, 1887, after less than eight months operations, it appeared that, after making very liberal allowance for all possible losses, the net profits were \$1,000 on a capital which at first was only \$4,000, and which did not reach \$8,000 until October. Business for the last three months of 1886 averaged \$5,000 a month. The operatives claim that besides their share in the profits they receive the highest scale of wages in Lynn. Naturally they are very well pleased and unanimously re-elected their old manager and directors. Mr. Nagle writes: "We are perfectly satisfied with the results. The secret of success is by applying business principles, such as keeping down expenses, etc." Some, it is to be hoped not many, of the other shoe manufacturers in Lynn are said to be bitterly opposed to this factory, since their employés, seeing the brilliant success of the coöperative company and learning the exact profit made on every shoe, demand for themselves a greater share of the product. One wholesale dealer in leather refuses to sell even for cash to the coöperative company, but the members of the latter are too well pleased with their success and too confident of the future to be easily daunted.

SPENCER COÖPERATIVE BOOT AND SHOE COMPANY.

At Spencer, Mass., is a similar company started April 12, 1886. At first it was poorly managed and attempted to occupy a large and expensive building. About the first of October, 1886, it elected Mr. James H. Kelly manager and removed to commodious but less expensive quarters, with most happy results. Although the mistake of the first few months have prevented any dividends, the last few weeks of 1886 witnessed a profitable business, and there seems now good reason to expect success from the enterprise. The capital of \$6,200 in \$10 shares is in the hands of about one hundred persons, although five own nearly half the stock. As the company is incorporated under the laws of Vermont, instead of Massachusetts, there is no limit to the amount of stock anyone may own. This is a serious mistake, and should be remedied, or a few or even one may ultimately control the entire business. Although only fifteen workmen are employed the monthly product is about \$2,500. The work being on a finer quality of shoes than elsewhere in Spencer, skilled workmen had to be imported from other parts of New England. All employés and stockholders must be Knights of Labor. Only two of the fifteen as yet own stock. Despite this, all the workmen are deeply interested in the success of the business, because, as at Lynn, they receive a share of the net profits. The plan of profit-sharing seems a model one and resembles that of Mr. Batterson in his Rhode Island Granite Works elsewhere described. After payment of six per cent. interest on capital and a deduction of twenty per cent. for a sinking fund, the body of employés receive such a part of the net profits as their combined yearly

wages bear to the capital. Each workman will receive profits according to his wages.

Goods are bought and sold for cash or very short credits. An agent is traveling for this company, as is another for the Lynn company, and business is increasing. The agents visit the Knights of Labor assemblies and in many cases induce the members to call at the local stores for the shoes with the label of the coöperative company and thus create a market. Where coöperative stores sell boots and shoes, as at the Industrial of New Bedford, Mass., the Knights of Labor Coöperative Shoe Store of Clinton, Mass., and the Coöperative Shoe Store of New Market, N. H., a market for the products of the factories is secured. The agents sell somewhat outside of New England, in New York and adjacent states.

THE COÖPERATIVE PRINTING AND PUBLISHING COMPANY OF BOSTON.

Mr. George E. McNeil, the veteran advocate of coöperation and champion of labor, organized, in the summer of 1886, a printing and publishing company in Boston on the same general principles as the Coöperative Boot and Shoe Company of Lynn. Only six per cent. interest is to be allowed on stock. Of the rest of the profits ten per cent. is laid aside as a reserve fund, twenty-five per cent. is to go to contingencies, for possible losses or for increase of business, ten per cent. goes to labor, five per cent. to District 30, K. of L., and the other fifty per cent. is to be devoted to propaganda. Every employé must own stock and must belong to the Knights of Labor and to the Printers' Union. The capital is 500 shares of ten dollars each. The limit of shares any one

can own is fifty. There were in September, 1886, twenty-five employés and about forty shareholders. The excellent composition and electrotyping of *The Labor Movement* edited by Mr. McNeil, is the work of this company. In a recent conversation he said his company was meeting with very good success and had all the orders it could fill. Four causes may be assigned for this success; the personal influence of the manager, good management, the quality of the work done, and in connection with this, and as one factor also in securing patronage, the coöperative enthusiasm which this scheme has aroused among the workmen and the friends of coöperation. It is of course too early yet to predict what permanent success will attend the enterprise. The outlook is certainly encouraging.

THE COÖPERATIVE IRON FOUNDRY COMPANY OF NASHUA, N. H.

This company, employing fifty hands and doing an annual business of over \$40,000, is thus described in a recent letter by one of the officers:

“This Coöperative Foundry Company was first organized 27th January, 1881, with a capital of only \$4,000. Shortly afterwards it was increased to \$8,000, then again to \$16,000, and finally last summer the capital stock was increased to \$22,000. This last increase was made to furnish tenements or homes for some of the help. Necessity was the cause of the starting of this venture—the help were refused their honest wages, an attempt to cheat them was frustrated through the firmness of the men, who put three attachments on the property, and after one year of law suit succeeded in getting their wages, and finally came in possession of the foundry and plant. The workmen were assisted by friends or outside parties, who helped in buying stock and now own some of it. Our stock has always sold at a premium as high as \$115 on \$100. From \$115 to \$109 has been the range. Any money made over six per cent. will be divided next May among the workingmen, stockhold-

ers and non-stockholders. Both will be treated alike as far as wages and profits are concerned, except dividend on stock.

"All must comply with the rules and regulations. Business is carried on as any fairly conducted stock company should be, no useless salaries paid to ornamental officers; every man must earn what he gets. While we have carried some men still we manage to get along without much friction. The competition in the market is very great. We know that some concerns make work at a loss, consequently *burst*; other concerns get the cheapest help they can find, and do everything to undersell others. Underselling is the ruin of the workingman; fair prices and fair wages should be the motto of all.

"I cannot close this communication without stating that in the commencement of our undertaking a squad of Boston moulders were imported into New Hampshire to take the places of the men who were endeavoring to obtain their lawful wages and by lawful means, but after a few days in the foundry they were compelled by the sheriff to go out, and they went. We have our foundry lighted by electric light; we believe we have the only foundry in New England lighted by electric light."

THE NATIONAL KNIGHTS OF LABOR COÖPERATIVE ELASTIC FABRIC COMPANY OF CHELSEA, MASS.

This company for the manufacture of suspender web, goring web for congress shoes, elastic web for gloves, etc., has paid for twenty thousand feet of land at fifteen cents a foot, erected and paid for a building one hundred by forty-six feet and put in part of the machinery, so that the company expects to begin business early in 1887 with about twenty-five employés, men and women. The capital stock is \$5,000 at five dollars a share, no one being allowed to hold over one hundred shares. The by-laws are in accordance with the Massachusetts law of incorporation soon to be described. After payment of eight per cent. interest on the capital and ten per cent. of the net profits to the reserve fund, one-third of the remaining profits are to go to labor,

one-third to capital and one-third to the coöperative fund of the general and district assemblies of the Knights of Labor. A portion of the wages of every workman will be reserved until he possesses a five dollar share and every employé will probably have to be a member of the Knights of Labor. The difficulties already overcome have been so great that the courage of the founders has been well tested. The enterprise originated in a strike of the girls of Martin Bros., of Chelsea, who, it is claimed, had cut down their pay. This and subsequent labor difficulties have cost the workers of the place \$14,000 in a few months, and have greatly hindered the raising of capital for the new company, though increasing the motives for it and stimulating the zeal of many. One thousand dollars of the four thousand two hundred dollars paid in capital in September was held by local assemblies of the Knights of Labor, which had contributed twenty-five dollars and upward apiece. Only Knights of Labor are permitted to own the stock. A considerable market will be secured among the labor organizations of New England. After enumerating some of the difficulties thus far experienced, one of the management, Mr. Leonard M. Small writes: "But we will get there before long and have already a number of customers ready to take our goods."

VII.

COÖPERATIVE BANKS.

The objects and general benefits of coöperative banks, or, as they are often called, coöperative building and loan associations, have been so well described by Dr. Albert Shaw, in his account of coöperation

in Minneapolis and St. Paul, that it only remains for me to give the peculiar features with a little of the history and statistics of the banks in New England.

Inasmuch as Massachusetts has the only general law on the subject in New England, and includes all but five or six of the entire number, about fifty in this section, the present state law under which all these banks must be organized deserves some study. The late Hon. Josiah Quincy¹ was chiefly instrumental in securing the main provision of the present law² in 1877. Some of the important features of the Massachusetts coöperative banks are the following: The capital of a coöperative bank is limited to \$1,000,000 in shares whose full value is \$200 each. The shares are not paid for at once, or within a short time of commencing business, as is usual with corporations, but are paid at the rate of one dollar a month until paid for, a new series of shares being issued semi-annually and annually. This would require two hundred months, or sixteen and two-third years, for the payment of a share, but for another feature of the system. The money accruing to the treasury from these monthly payments, and from all other sources, is loaned every month to such of the shareholders as offer the highest premium. The profits from these loans and premiums furnish the dividends, which usually amount to between six and seven per cent. Every one can borrow for aid in building or

¹ See interesting and clear presentation by J. Q. A. Brackett, of the present system in *The State*, October 3, 1886, and reprinted by T. O. Metcalf & Co., printers, 48 Olivet street, Boston, Mass., 1886.

² The text of the present law, as amended to date, is to be had in convenient form of Mr. D. Eldredge, 36 Bromfield street, Boston, Mass.

buying a home, to the amount of the par value of his share, but no more. As security he must offer his shares and such other property as may appear to the directors sufficient. They will lend up to the full market value of such security, while the savings banks are only allowed to lend to the extent of sixty per cent. of the assessed value of the real estate security.

It may be asked, how a poor man who has not real estate can borrow, even of a coöperative bank? The answer made by Mr. Brackett, and confirmed by others, is that "if he wishes to buy an estate he can borrow of the bank the greater part of the needed purchase-money, and give as security therefor a mortgage of the property at the same time he receives his deed therefor. Of course the bank cannot furnish the whole amount of the purchase-money." But if one has a very little money and will subscribe to, say five shares, he can borrow \$1,000. A man can thus build a house, mortgaging it as security to the coöperative bank. The would-be borrowers, as has been said, bid for the privilege. Premiums range from nothing to fifty cents a share, but rarely over twenty-five cents for any length of time. The by-laws of coöperative banks usually require the successful bidder for a loan to pay for one month's interest and premium immediately. If a loan is not approved, a month's interest and premium are forfeited. Successful bidders can always obtain shares for their loan. If one borrow \$2,000 at twenty-five cents premium a share he is subject to three monthly charges—first, a payment of ten dollars on his ten shares, which he had first to take before borrowing; secondly, a payment of \$2.50, as a premium, and

thirdly, a payment for interest, which, on \$2,000, at six per cent. (the usual rate) is \$10. In all, then, our friend pays \$22.50 a month, until his shares mature in about twelve years, when the bank will hold his note for \$2,000, and he will hold shares worth \$2,000. The two accounts are cancelled, and thus for a little more than the expense of rent in the meantime a man finds himself owner of a comfortable home.

Anyone with sufficient security, which, be it observed, most workmen have not, might borrow the \$2,000 of a savings bank, pay five per cent. interest, or \$1,200 during the twelve years, and then pay the debt, making \$3,200. The same sum borrowed of a coöperative bank will involve a payment during the one hundred and forty-four months, at \$22.50 a month, of \$3,250, besides the loss of, perhaps, \$400 more in compound interest to the close of the twelve years on these payments. Two things are to be said: First, it is very unusual for one to pay a twenty-five cent premium for a very long time. Whenever he finds it possible to bid off \$2,000 for a lower premium, say ten cents, he may do so, and with this loan pay off his other, borrowed at a higher rate, for one can repay his loan at any time, retaining his shares or not, as he chooses. The only charges are that the borrower must pay double interest and premium for one month, and have a new mortgage made and the old one discharged. Even this reduction will not fully equalize the payments in the case of the borrower from the the coöperative and from the savings bank. It, therefore, remains to say that, human nature being as it is, scarcely one man in a thousand will make provision

by constant voluntary monthly deposits in a savings bank to repay his \$2,000 mortgage at the end of the twelve years. This is the real justification for the existence of the coöperative banks. Their shareholders feel compelled to make their regular monthly payments. Before the man is aware of it, he has paid for his home and acquired the valuable habit of saving. The results are in every sense satisfactory, seven per cent. dividends being made.

Again, these banks enable the depositors, who are in most cases wage earners, to use their own deposits, whereas the money^f deposited in the savings banks in Massachusetts, \$300,000,000 in 1886, supplies the capital of the great employers of industry, and thus does not so directly promote the coöperative ideal,—a larger share by the workmen in the profits of industry. In addition to nearly all the advantages of the justly famous postal savings banks of Europe, the coöperative banks give much higher interest and keep the deposits for actual use among the lenders of the immediate neighborhood. By the Massachusetts law at least twenty must be associated together for organizing such a corporation, and no person can hold more than twenty-five shares of the ultimate value of two hundred dollars each in one corporation. No member can have more than one vote. A member may at any time, on thirty days' notice, withdraw any shares not pledged as security for loans, besides paying any fines that may be due. He loses by so doing such portion of the profits previously credited to the share, and must bear such a proportion of any unadjusted loss the by-laws may determine.

When each unpledged share matures, *i. e.*, reaches through payments and dividends the value of two

hundred dollars, the holder is to be paid with interest at six per cent. for any time that may intervene before the payment. All dividends on the stock cease. To avoid any run on the bank it is provided that at no time shall more than one-half of the funds in the treasury be applicable to the payment of such matured shares, without the consent of the directors. The same provision is made with regard to those who would withdraw their shares, as any one may on thirty days' notice, if he is willing to forfeit such part of the accrued profits of his share as the directors may determine. The directors make deductions varying from nothing to one-fourth of the accrued profits. The banks confine their loans to the State and generally to the immediate vicinity.

Only one serious danger seems to confront these banks, unless we accept the temptation of a borrower to offer such high premium as forty cents for loans, and that is that in about twelve years after the opening of the banks, there will be insufficient funds in the treasury to pay off the shares, which then begin to mature every six months. Assets will be sufficient but not available, *e. g.* one of the Massachusetts banks has two hundred and thirty-five shares, amounting to \$57,000 that will mature about January 1890, and one hundred and seventy-two shares, amounting to \$34,400, six months later, or \$91,400 that year. The amount of dues received in 1885 was \$61,044.87 and the total cash received \$95,755.03. These latter items may increase, and judging from past growth, will increase fully seventy per cent. by 1890; but even then one-half of the total receipts must go to the payment of shares. If now any considerable number of others wish to withdraw their shares—and eight

hundred and ninety-five shares, one-sixth of the whole number, were thus withdrawn from the bank in question in 1885, as an ordinary incident of business.—the bank will be in a tight place. To be sure, the directors can legally postpone payment, after paying out one-half of the cash in the treasury at any one time, but, since in six months another series matures, postponement could not long be indulged in without ruin to the credit of the bank.

The law has carefully provided for this. The directors may in their discretion and pursuant to the by-laws, retire the unpledged shares of any series and enforce their withdrawal at any time after four years from their date of issue. The full value of the accrued profits on the shares to date must be paid in such cases, instead of part, as in the case of withdrawals by members. The shareholders whose shares are to be so retired shall be determined by lot under such regulations as the directors may prescribe. By means of this provision a bank may anticipate the time of payment, whenever it cannot loan its funds at satisfactory premiums, and thus be relieved of all danger. Although the oldest banks founded in 1877 had only been running eight years in 1885, three of them then began paying off shares of the first series. Four hundred and ninety shares in the three banks were thus retired that year, leaving but three hundred and seventy-six shares in the first series and three hundred and thirty-eight in the second.

Mr. Eldredge, who is of deserved authority on this subject, having been instrumental in founding and prominent in managing several of these coöperative banks, thus writes of the safety-valve just mentioned:

“It is being made use of regularly every six months, but the majority, to their discredit be it said, make no use of it whatever. The right of the directors to retire the shares (after four years) is truly a safety-valve. By a judicious use of it, unsaleable money may be used in paying off the shares, and again it is wise to redeem the old series to a size (in number of shares) which will admit of paying in cash at maturity. In two years the maturing of shares first issued will occur, and then comes the trying time with the system here. Those banks which have so reduced their series as to be able to pay cash, will ride safely along—otherwise, otherwise. Then is the time, and continuously thereafter, when the banks have got to be financed well or go to the wall. Assets enough, probably, but not *cash* to pay indebtedness. The series are like notes becoming due, and, as the banks have no quick assets of any description, it behooves them to provide. Those banks which can sail along for a few years following the first maturity of shares, will be able probably to continue. Some banks in this state are apparently utterly ignoring, or vainly putting off, the evil day, for they have large series and do not retire any shares.”

It must be said, however, that there is yet time to make such provisions as the law allows, and most banks will probably be wise enough to do so, when their attention is strongly called to the danger. If any failures occur it will not be on account of the system or the law, but of the folly of directors. Furthermore, as Mr. Eldredge remarks, the worst effects will be felt during the first year or two after the shares begin to mature, since these banks, having abundant assets, can easily arrange for the payment of shares if they will plan accordingly.

As no bank can possess over \$1,000,000 actual paid-in capital, any danger of a progressive increase of liabilities and business until too large to be well-manged is out of the question.

As long ago as 1850 there were coöperative building associations in this section which reached the height of their prosperity about 1860 and failed, in some cases most disastrously, in others honorably,

about five years later. This was due to the grave faults in the system, and this in turn to the prevailing ignorance of how to conduct such associations. Among these defects as contrasted with the present system may be mentioned: The old banks, instead of issuing \$200 shares every six months, payable in one dollar monthly installments, made but one issue on those terms. When these shares matured in from ten to thirteen years, and were then paid back as the law required, the bank was thereby extinguished. In the old, if one who took a share failed to keep up his monthly payments he was fined so heavily that his share would be entirely extinguished in about six months. Now only a two per cent. fine can be exacted, and this fine cannot extend beyond six months, when, if no further payments are made, the value of a share at date, less certain accrued profits, is returned to the owner of the share. Nor in the old law was there any provision for the retirement of shares before their maturity at the discretion of the directors. An important fact, bearing on the assumption of some, that the less legislation the better, is thus presented by Mr. Eldredge: "The old banks were not hedged about with detail legislation. The act was a brief one, and set up a skeleton arrangement, leaving a mass of details to be arranged by each association to suit itself. The new are hedged about, many details being inserted in the act—valuable ones, too."

Examples by the hundred might be cited to show how the present system of coöperative banks has already, in less than ten years after the passage of the law, enabled the wage-earners, who are their chief patrons, to own homes of their own, and in

many more cases obtain returns of six and seven per cent. on their monthly deposits.

A few facts gleaned from the report for 1885 of the bank commissioners of Massachusetts will tell much of the story. There were then thirty coöperative banks, since grown to forty. These thirty had 78,565 shares in force, 11,836 members, 2,482 borrowers, and \$2,512,335.86 assets, an increase of twenty-five per cent. over the preceding year. The report for 1886 is expected to reveal a corresponding increase for that year. At this rate a great future may be expected for these associations. The loans are almost entirely on real estate security, but a small amount is loaned by each bank on the mere security of the shares. The by-laws of the several banks limit their loans sometimes to \$2,000, sometimes to \$5,000, the limit of the state law. The smallest loans are as low as twenty dollars.

Since it is the policy of these banks to loan all moneys in the bank once a month, or to use them to pay off shares, and, as all the business can be done in a small part of every day, no great expense for vaults and clerical force is necessitated. One man in Boston, Mr. Eldredge, is secretary of three banks—the Pioneer, Homestead, and Workingmen's—all of which have the same office and hold their monthly meetings on different evenings in the same hall. In other places the secretary can engage in other business, *e. g.*: Mr. F. W. Dickinson, secretary of the Springfield Coöperative Bank, carries on a large undertaking business. The entire yearly expense for salaries of the twenty-seven banks, which had been running a year in 1885, was only \$9,686, an average of \$358.74.

In the summer of 1886 Maine had a coöperative bank at Richmond and another at Bangor. Rhode Island had one at Providence, and Connecticut one at New Haven. There being no general law of incorporation of such banks they were incorporated under special charter.

VIII.

GROWTH OF COÖPERATION.

LAWS GOVERNING COÖPERATION.

While the other New England states have no general law for the incorporation of coöperative companies, Massachusetts has maintained in this direction her customary lead in wise labor legislation by the law of 1866 and the subsequent amendments thereto, the most important of which were adopted in 1870 and 1879. By the present law the capital stock is limited to \$100,000 and cannot be less than \$1,000. No one can hold more than \$1,000 or have more than one vote however many his shares. There must be an annual distribution of profits and earnings among the workmen, purchasers and stockholders, as provided in the by-laws, but ten per cent. of the net profits must first be appropriated for a contingent or sinking fund until there shall have accumulated a sum equal to thirty per cent. in excess of the capital stock. The word "coöperative" must form part of the corporate name, and shares to an amount not exceeding twenty dollars in the aggregate are exempted from attachment and execution. All incorporated companies must make full returns annually to the secretary of the important items of their business such as their nominal and paid-in capital, number of shares, and their assets and liabilities of all

kinds. An abstract of these is printed with the certificates of incorporation of all other companies and is most valuable to those interested in coöperation. Of course many companies are not incorporated, but by far the larger part take advantage of the law, which gives the stockholders greater security and increases the credit of the company.

STATISTICS.

From these reports to the Massachusetts Secretary of State, some surprising facts appear. For instance it is commonly supposed that since the downfall of the Sovereigns as an organization coöperation has been practically dead in the state, whereas these reports show that there was never so much capital invested in coöperation or so much prosperity manifest as now. A few summaries which I have made from the tables given in these reports will prove this:

Distributive Coöperation.

Date.	Paid in Capital.	No. Stores Incorporated.	Average Capital.
1877	\$71,279	30	\$2,376
1885	92,375	27	3,421
1886 ¹	124,430	30	4,181

The growth is not in the number of stores, although a great increase in that respect is probable in the immediate future, but in capital and trade, which is the surest guarantee of success. The percentage of successes to failures is much greater than ten years ago, although the exact figures cannot be given. Over ninety per cent. of business firms fail. Coöperative enterprises since 1880 in New England can show fully as good a record, indeed much better

¹ From returns to me of incorporated and the very few unincorporated companies.

—a fact too often overlooked by those who consider failure the sure outcome of coöperative efforts.

The summaries given above refer only to distributive coöperation. The figures for productive, coöperation exclusive of creameries, which belong entirely to the present decade, is even more encouraging. In 1875 the Secretary of State reported nine manufacturing companies with a total capital of \$73,250 or an average of \$8,139. In 1885 he reported ten companies with \$166,900 capital, or an average of \$16,690, —a growth in ten years of over one hundred per cent. This growth has continued through 1886. At least four new companies in Massachusetts began business that year, and report excellent prospects. To this must be added the thirty coöperative banks, since grown to forty, reported in 1885 with a capital of \$2,512,335.86, and now nearly \$1,000,000 more, none of which existed prior to 1877.

From the tables compiled with much care, which are to be found at the close of this account, it appears that productive coöperation in twenty companies in New England can boast a business of \$1,000,000 a year. Coöperative stores have a trade of over \$1,750,000. Coöperative creameries do a business probably of \$1,000,000 and at least \$3,250,000 are now invested in coöperative banks. Aside, then, from coöperative insurance companies and from the trade of probably \$500,000 at liberal discount to grangers, the yearly business of the coöperative companies of New England amounts to between \$6,000,000 and \$7,000,000.

Our record of the early years of the coöperative movement embraced more of failure than of permanent success, although it is safe to assert that most

of the so-called failures returned to the community, and very often to the supporters of the enterprise, a full equivalent of the money and time expended.

The history of the last ten years, and more particularly of the period since 1880, reveals an increasing number of successes. Mr. George E. McNeil, of Boston, recently remarked to the writer that failures were due to the fact that "the coöperators failed to coöperate." All that is now rapidly changing and the future of coöperation has seemed never so bright as to-day.

Mr. Wm. F. Young, of Wakefield, Mass., previously referred to as prominently identified with the early days of the coöperative movement in this country, writes: "The failures and mistakes of this movement, as well as of other union and coöperative efforts in this country, convince me that what is most needed to insure success is more thorough personal culture and education upon economic questions among the working people. I trust the work you have in hand will do much toward meeting this necessity."

THE SOCIOLOGIC SOCIETY OF AMERICA is the name taken by a society for the promotion of coöperation, which was organized in New York in 1882 by Mrs. Imogene C. Fales. An important meeting of this society for the formation of a national coöperative board was held in the parlors of James Freeman Clarke's church, Boston, September 25, 1886. At this meeting Mrs. Fales unfolded the great results of the Central Coöperative Board of the United Kingdom. Organized in 1870, this board in 1885 had a membership of six hundred and seventy-nine societies. Funds necessary for its work are obtained

by a payment of 2d. per annum from each member of a society which joins the union. The board collects, and through numerous leaflets and its organ, *The Coöperative News*, distributes information about the coöperative societies of Great Britain. By these means and a yearly congress much is done to promote coöperation. A similar work was mapped out at this Boston meeting for our own country. A national coöperative board was organized to collect and diffuse information, of which Mr. Samuel Whittles, Jr., of Fall River, Mass., was elected chairman, and Mr. George Dewhirst, of Lawrence, Mass., secretary. The first number of the quarterly journal of this society, *The Coöperative News*, issued in January, 1887, with the gentlemen just named and Mr. F. H. Giddings, of Springfield, Mass., as editors, gives promise of taking up the work of coöperation where the *Bulletin* of Worcester, the old-time organ of the Sovereigns of Industry, laid it down. Although so recently established, this coöperative board, through its chairman, Mr. Whittles, was able to render material assistance in some portions of this investigation.

Mr. Geo. McNeil called a meeting of the delegates of the coöperative societies known to be located near Boston to meet in that city September 22, 1886. Although only about eight societies were there represented, a very interesting meeting was held. For the first time these societies, through their delegates, had an opportunity of comparing notes and considering the best forms of productive and distributive coöperation. It was agreed that, as in the latter, the Rochdale plan was preferable, so in the former a share in the dividends to all employés, whether

stock-owners or not, as prevails in the Coöperative Publishing Company, 25 Beach street, Boston, and the Knights of Labor Coöperative Shoe Company of Lynn, was by far the best and truest form of productive coöperation. Indeed, in other places, some writers, notably Mr. Giddings, have gone so far as to urge that the state shall only recognize those manufacturing companies as coöperative which do thus share profits with all employés. This informal meeting adjourned with a resolution instructing Mr. McNeil to call a convention of all coöperative companies in New England to meet at such time and place as should seem to him best. It is to be hoped that through this source, or that of the Sociologic Society, a congress of coöperators will be called in the near future.

IX.

PROFIT-SHARING.

Profit-sharing is the term usually applied to that form of coöperation where the employés, without contributing to the capital, or having any control in the management, share in the profits aside from their regular wages. There has been long in vogue, however, in the New England fisheries a form of profit-sharing where no wages at all are paid, but the workmen rely for reward wholly upon a stipulated share in the catch. The Massachusetts Labor Report for 1886 describes the system. It appears that at Gloucester the owners furnish the vessel, provisions and fishing gear, and receive half of the gross value of the catch, after deducting a few trip expenses, such as towing, ice barrels, etc. Out of this half, the owners pay the skipper a percentage,

while the crew from their half must pay the cook, the cost of the medicine and a small percentage to the widows and orphans' fund. The crew's half is divided among the men in proportion to the catch of each, if the fish have been caught with hook and line. When seines are used, as in mackerel fishing, the crew share equally. Where the crew find provisions, dories and fishing gear and pay all expenses, except hiring the skipper, as in haddock fishing, they receive three-fourths of the gross proceeds. The value of the vessels used varies from \$3,000 to \$12,000. The average is about \$5,000. The owners are reported as saying that the wages system would be impracticable. "We should get a lot of loafers, and the business would go to ruin. It is the stimulus of profit-sharing that has made our famous skippers." while the fishermen are reported as saying: "We could not live on wages, for the active, skillful men would fare no better than the lazy; there would be no inducement to secure the largest possible catch; the business would become unprofitable and wages too low to tempt first-class men."

THE PEACE DALE MANUFACTURING COMPANY.

The oldest example in New England of profit-sharing of the type so common on the continent of Europe, is the Peace Dale Manufacturing Company at Peace Dale, R. I., a village of twelve hundred inhabitants, about thirty miles southwest of Providence. From the full account in the Massachusetts Labor Report and from correspondence with the treasurer, Mr. R. G. Hazard, the following facts are gathered:

This company, the oldest woolen mill in the United States, dating back to 1804, and the first to use the

power loom, is still in the hands of the Hazards of the third and fourth generation in descent from the founders. With a capital of about \$400,000 and a yearly business in the manufacture of shawls, worsted coatings, cassimeres and other woolen fabrics of about \$600,000, it employs an average of four hundred and fifty hands. Two-thirds are English, Irish, Swedes and Germans, the majority being Irish. Two-fifths are women. Profit-sharing began with a circular to the employés January 1, 1878, announcing that thereafter, for as long as the company might choose, a part of the net profits after payment of wages, interest at a very moderate rate on capital and a percentage for a reserve fund against losses, should be given yearly in March to all employés who were in the employ of the company seven months of the year, ending February 1. This share to labor—not far from one-half the net profits—was to be given to each of the employés in proportion to the wages received from the company during the year. Very singularly, the owners who are also managers, reserve no salary for themselves, but trust to their dividend for reward. During the eight years since the plan was initiated the severe depression in the cotton business has only enabled payment of dividends during four years as follows :

January 31, 1880,	5%	on wages,	\$5,842	40
“	1881,	5	“	5,999 65
“	1882,	3	“	3,760 14
“	1883,	3	“	3,760 35

Despite the failure to pay dividends, the firm express themselves satisfied that their experiment has been a success in preventing waste and encouraging

conscientious work, which is so important to the moral as well as the material good of the community. An increased care and diligence on the part of the employés can be seen. In a circular to the help in 1883 the principles on which all profit-sharing is based are thus stated: "Every weaver who makes a mispick, every burler who slights her work, every spinner who makes a needless knot, in short, every person who makes waste of any kind, of course makes the amount to be divided smaller by making a loss to the concern; and we think a manifest improvement is evident."

The circular for 1884, after regretting the failure to earn dividends that year, adds: "It is believed, however, that a large majority [of the employés] have been as careful and as conscientious as possible, and the officers of the company look with pride upon such, hoping and believing that the system of participation will yet produce good results, far beyond what it has accomplished in the past." The last circular, of March 1, 1886, shows the spirit of the management. Expressing great disappointment at the continued inability to pay dividends, the circular concludes: "It is with satisfaction, however, that we look upon our undisturbed condition of mutual confidence and esteem. As long as this continues we have one very important element of success. We are truly thankful that this element exists, and we trust that it will exist as long as a mill stands in Peace Dale." In a letter of October 14, 1886, the treasurer writes me relative to the general applicability of profit-sharing: "I see no reason why it should not apply to all trades using labor, outside of machinery. No use in applying it to anything purely

mechanical. The greatest foe to success is the ignorance of the laboring men. Intelligence must exist to some extent in order to have any good result."

THE NEW ENGLAND GRANITE WORKS.

At Westerly, R. I., are the quarries, and at Hartford, Conn., the offices of the above company, owned by J. G. Batterson, who introduced profit-sharing January 4, 1886, by a letter to his superintendent, James Gourlay. The following extracts are taken from this, which was printed and circulated among the men:

"DEAR SIR: In regard to the various questions which have arisen from time to time, touching the proper relations of capital to labor, and which at times have assumed such menacing attitudes that we have been forced to decline orders of considerable magnitude, for the reason that we could not run the risk of a "strike," which might involve us in heavy loss and damages, I have determined to submit to you the following propositions, with the hope that they may prove acceptable to the men employed by us:

"First. On all orders executed at the New England Granite Works quarry, in Westerly, R. I., during the year 1886, commencing January 1st, *ultimo*, both capital and labor, in proportion to the amounts or values contributed by each, shall share in the net profits made on such orders during the year."

The capital is \$250,000 with an output of \$500,000. The wage of the three hundred and fifty to five hundred employés are, say, \$200,000. The latter figure is merely given for illustration, and is not to be considered official. But if we suppose the wages are \$200,000, then, since the capital is \$250,000, the dividend to labor would be $\frac{200,000}{450,000} = \frac{4}{9}$ of the entire net profits after one-third of the profits have been reserved as a guarantee fund. To this guarantee fund are charged all losses by bad debts, or credits for materials and labor during the year. At the end of the year all outstanding accounts and bills re-

ceivable are to be treated as good under the guarantee, and therefore available in determining the net profits. If the guarantee account does not prove to be sufficient to cover the losses the amount must be made up by the stockholders, but when it is more than sufficient the surplus will belong to the stockholders. Continuing the quotations from Mr. Baterson's letter:

“Second. The net profit shall be determined in the following manner, viz.: out of the gross receipts, or from the capital employed, shall be drawn, first, the wages of the men employed as journeymen, whether by day's work or piece-work, at the rates mutually agreed upon or otherwise established, which shall be paid monthly; second, all other expenses of conducting the business, including superintendence, traveling expenses, clerk hire, taxes, insurance, and legal interest on the capital employed, shall then be deducted and paid out of the gross profits, and the balance remaining shall be treated as the net profits, from which a dividend shall be declared and paid in manner and form as hereinafter provided.

“Third. The net profits having been determined, the entire amount shall be divided into three parts, one part to be appropriated and paid as a dividend to labor, one part to be appropriated and paid as a dividend to capital, and one-third to be reserved as a guarantee fund, to which fund shall be charged all losses or bad debts, or credits given for materials and labor during the year.

“Fourth. The labor dividend shall be made and paid before any dividend is paid to capital, and such payment shall be made at the end of each fiscal year, or as soon thereafter as the books can be written up, an inventory taken, and the net profits determined.

“Fifth. When the net profits have been determined as aforesaid, the same may be verified by a competent accountant or auditor, to be selected and agreed upon by the parties interested; and when such accountant shall certify that the net profits have been correctly and fairly determined, then the dividends may be paid; but such accountant or auditor shall not be at liberty to disclose or make public any other facts concerning the business audited than a simple verification of the accounts, and the sum total of the net profits for the year, available for the purpose of a dividend.

“Sixth. As the labor dividend is intended for labor only, no officer, superintendent, overseer, clerk, agent, or other employé drawing a salary, or however otherwise paid, nor any contractor or sub-contractor, who for their own account and profit, contract or agree for a “lump sum” to do and perform the whole or certain specific parts of the work upon a building, monument, or other structure, such work being outside of and not subject to an established or agreed bill of prices, either for day’s work or piece-work, therefore no such officer, superintendent, clerk, apprentice or contractor will participate in any dividend paid to labor, as hereinbefore stated.

“Seventh. No workman who during the year shall have been discharged for good and sufficient cause, such as drunkenness, insubordination, bad workmanship, etc., or who leaves the employment of the company without the consent of the superintendent in writing, shall be entitled to participate in any dividend of profits for the year during which such discharge has taken place.

“Eighth. No workman shall be deprived of his dividend who has been discharged arbitrarily, or without good cause, or who has been discharged for the reason that the superintendent has not sufficient orders on hand to justify his further employment.

“Twelfth. The control of the business must necessarily be in the hands of the stockholders. Men employed every day in mechanical labor cannot watch the markets, or possess that aptitude for business management on a large scale which is requisite to success, but they can do much in stopping the leaks caused by inefficient and bad workmanship.

“Thirteenth. All work done or money earned by the employment of machinery will be counted to the credit of labor and capital alike, and the profits made thereby will be subject to the same rule for distribution as for profits otherwise made.

“Fourteenth. No officer, director, or stockholder, shall receive any salary or compensation, except for services actually rendered, and time actually spent in the service of the company, all of which shall be as fully stated, as the amount of service contributed by any other person in the employment of the company.

“Fifteenth. The rate of wages per diem, the bill of prices for piece-work, and the number of hours to constitute a day’s work, shall be determined by mutual agreement on or before the first day of January in each year, and any disagreement which may arise during the year between the superintendent and workmen in regard to the same shall be settled by arbitration.

“Sixteenth. The rate of wages per diem and the bill of prices for piece-work shall not be reduced by the superintendent to affect any contract on hand, or taken upon the rate of wages or bill of prices prevailing at the time such contract was made, neither shall the rate of wages or bill of prices be advanced by the workmen to effect such contracts, and if so advanced the difference in cost by reason thereof may be adjusted in making up the dividends.

“With the results of a long experience before me, I am convinced that the payment of fixed wages to a large number of men carries with it no inspiring motive to the attainment of a high standard of excellence, either as to the quantity or quality of their productions; but, on the contrary, it tends to indifference and laziness to such an extent that the measure of a fair day’s work is not that quantity which can easily be done and well done by a good man, but that quantity which an indifferent man is willing to do and can do without much effort. The consequence is that the best men who are endowed with both energy and skill, soon break away from the restraints of idleness, and by the ‘bill of prices fixed for piece-work’ obtain a larger freedom and a larger reward for their labor; and the fact appears also, that this system of compensating labor is most remunerative to the employer, which brings us to the point, that the average and indifferent workman does not earn his wages when tested by the standard of his own ‘bill of prices.’

“I believe, then, most thoroughly in the efficacy of *individual interest* as the only available stimulant to natural ambition, and the best results both to capital and labor. When the interests of capital and labor are made identical and well balanced, I believe the conflict between them will cease, and both will be the gainers thereby.

“I sympathize with the laudable ambition of the skilled workman to emancipate himself from the thralldom of a service in which he has no other interest than daily wages, and who aspires to that identity of interest in results which begets self-respect, and a worthy pride in the success of his own company or corporation.

“When the workmen are all interested in the results of their combined labor, there will be no room for those who are unwilling to earn, and fairly earn, the wages which they demand. When the industrious and skillful workman sees that his own earnings are being diminished by the slothful and unskilled workman at his side, he will rebel, and demand, as he will have the right to do, that a better man shall be put in the place of the laggard.

“My purpose is, if possible, to secure a community of interest which shall be recognized and admitted to be fair and equitable,

claiming no more for capital than is sufficient to hold it in such employment, and giving the balance to labor. Whether my propositions are practical remains to be seen."

Mr. Batterson informs me that after this first year, 1886, no profits will be paid to those who have not been in the business one year and that an increasing per cent. of profit will be paid employés according to their years of service up to five years. A few years ago there was a long strike when the men, says Mr. Batterson, kept him from hiring other employés until he took legal proceedings against them. But the bitterness of that struggle seems to have been allayed, so that even before the introduction of profit-sharing the company's relations with its employés were friendly.

The experiment has fully met the expectations of Mr. Batterson, who said in September, 1886: "There has been no year since I have been in the business when the men worked so well and took such an interest in the business as they have this year." His remarks to a reporter of one of our large dailies are thus given under date of December 31, 1886:

"We had no strikes during the year, and as the men have looked out for one another's work it has generally been done well. As they have an interest in seeing that what is done is done thoroughly, they supervise themselves to a great extent, and there is a saving in that respect. The new plan will be of more advantage to skilled than to unskilled workmen especially this year, for not long after the arrangement went into effect the laborers in the quarry heard of an advance in wages of men similarly employed in Maine, and they, too, demanded the same increase. It was granted them, but the advance, under the conditions of the agreement, will be deducted from their surplns at the end of the year.

"We have had no trouble with strikes; no trouble with contracts. We do not ask our men whether they belong to a union or not; we are more interested in whether they are capable men and thoroughly understand their work. When the profit-sharing was first proposed the men, or at least some of them, did not take

kindly to the plan. But they took hold of it well after the start, and what is more, they liked it and did their best to carry it through. We hope to make a dividend, but the accounts for the year are not yet made out and the result determined, and so I can't give you any figures about the profits to be divided among the employés of the company. Our plan is an experiment, and I don't believe that anything like it has been tried in this country. I can't say how it would apply to other industries. There are some, of course, to which it would be inapplicable from the nature of things, but there are others for which it would furnish a solution for many difficulties and perplexities arising from the relations of capital and labor."

ARA CUSHMAN & COMPANY, SHOE MANUFACTURERS,
AUBURN, ME.

Being unable to visit Auburn, the letter of Mr. Cushman and his address to his men on inaugurating his important plan are so good that full extracts are made. He writes under date of October 15, 1886 :

"The employés are to receive regular weekly wages at the current prices paid in other factories. The firm is to receive—
1st. Interest on all capital employed in the business. 2d. A fixed amount, as salaries to the partners for the management of the business. 3d. A fixed amount, or a percentage of what may be due from our customers at the end of each year, to guarantee against losses. 4. A percentage of the net profits for a 'Surplus Fund' until said surplus shall amount to a certain percentage of the capital used.

"After these conditions have been met, the profit remaining, if any, is to be divided between the employés and ourselves in the proportion that the annual amount of wages paid bears to the annual sales, which will be between twenty-five and thirty per cent. All of these sums and percentages have been satisfactorily fixed between the firm and the three representatives of the employés.

"We commenced under this plan April 12th last. So far affairs have progressed very satisfactorily, and in the main we are pleased with the spirit the men and women manifest, and the interest they show in the business. We have not looked for and have not given our employés reason to expect a large dividend.

"The result of the six months business just ended is such that we think there will be something to divide at the end of the year's business. Our annual sales are from \$1,000,000 to \$1,250,000. Number of employés, 650 to 750. Amount of our annual pay-roll, \$250,000 to \$275,000.

Mr. Cushman's address to his employés March 27, 1886, and subsequently printed and distributed among them thus closes :

"This dividend shall be based on the amount paid to each employé during the year for labor. No one to be entitled to a dividend who has left the employ of the firm against its wishes, or been discharged for any reason other than sickness or want of work. The management of the business to be entirely in the hands of the firm, and to be the same as now, unless better methods can be suggested. Three of the employés are to be selected as representatives, with whom the firm will arrange the details of this plan, and who will be sufficiently informed about the conditions and results of the business to enable them, at the end of each year, to report whether the conditions agreed upon have been correctly and faithfully carried out. These representatives are not to disclose or make public any fact concerning the business except the amount or percentage of dividend available for the employés. They shall be persons in whom both the firm and the employés can place the utmost confidence. They must be citizens of Auburn, and two, at least, be owners of property and interested in the growth and prosperity of Auburn. If, with one year's trial, this system shall have worked as well as we hope, and is likely to prove practical and satisfactory, we shall, if it is the wish of many of our workmen, change the organization of our firm into a corporation, so that the capital may be represented by shares of stock. We will then set aside a limited part of the stock, or number of shares, for such of the employés to buy as would like to invest their money in that way; the stock thus owned by the employés to receive the same return in interest and dividend as that held by ourselves.

"In this proposition we now present you, we ask you to run no risks and make no guarantees; for this reason the dividend to you must be smaller than it possibly might be, if you, with us, shared the risks of the business. We intend the wages paid you weekly to be fully an equivalent to you to the amount to be set aside for capital, management, and the risks and guarantees of business. I do not wish to give you reason to expect a large dividend on the amount of wages earned; for a small percentage on the amount of our pay-roll would be a large sum. Our pay-roll last year was about \$250,000—five per cent. of which would be \$12,500—quite a respectable amount. But five per cent. on the earnings of one man whose pay in the year amounts to \$500, is only \$25, which by itself is not a large sum, but, if multiplied by the number of men and women we employ, it would amount to a sum worth working for.

“This also illustrates how difficult it sometimes is to advance the rate of wages. Ten per cent. advance in our prices would amount to \$25,000 a year, a sum that could not always be taken from the yearly profits, except by the process of algebra, where signs are used, but it is only *twenty cents* a day to a man whose pay is \$2.

“Suppose all the men and women who work for us in all the different places and capacities, should be able, in some way, to make their services worth to the business five per cent. more than they ordinarily are, that would amount to \$12,500. Is it not possible that in transforming into boots and shoes ready for the foot of the wearer all the material of all the kinds we use in a year—leather of the different kinds, cloth, thread, silk, nails, wax, flour, glue, cement, twine, ink, paper, boxes; that in the process of cutting and assorting the leather, in the wear and tear, in the breaking of tools and machinery, in the use of time, and in the damage to material, in the different processes—more economy could be used, more saving made, less waste allowed and damage caused? With sufficient thoughtfulness, study and care, could not the saving in all the ways I have indicated, and in others that may suggest themselves to you, be made to amount to a sum which, if divided to all the employes, would be equal to $2\frac{1}{2}$ or 5 per cent. increase in your pay? I will particularize a few of the ways in which saving might be made or losses prevented. If a man in cutting grain leather uses one foot more for a case of slippers than is absolutely necessary, the loss on his work is from fifty to sixty cents a day. Such a result might easily happen, and be hardly perceptible to a looker-on, or even to the cutter himself. If a cutter of calfskins fails to put every part of the skin where it will count for the most, or in the place to which it is best adapted, and thereby makes his shoe vamps cost a half cent a pair more than they otherwise would, the loss on his day's work amounts to at least a dollar. If a man who cuts split quarters fails to place his pattern and cut the stock so as to get the most possible from it, losing only one-eighth of a cent a pair, he fails to earn for us as much as he might by more than a dollar a day. If a man in cutting sole leather fails to adjust his die as closely as it possibly might be, and for that reason gets one less sole in every three sides of leather, the difference in the cost of the soles cut in a day would be only a small fraction of a cent on a single pair, but on his day's work it would amount to more than \$1.50, which is a very large per cent. on his wages.

“In the stitching room, if the thread and silk is not all used from the spool, or if the ends are left longer than they need to be, or if twine is wasted in tying up the cases, the loss might be very

slight on a single pair of shoes, but on a day's work it would be enough to lessen the value of the services of the woman doing the work to some extent, and when multiplied by one hundred women and then by three hundred days, the amount would be enough to buy many new dresses and bonnets. If every man and woman who runs a machine could save an unnecessary wear and prevent all breaking by careless use, we should have to buy less machines and 'spare parts,' and our machinists would have less to do. In the item of damage to material and goods in the process of manufacture—tearing shoes in lasting, damaging soles in fitting, scratching or cutting uppers in stitching, and in all the different ways in which damage happens—if this could be reduced to the least possible amount, the saving made or the loss prevented would, I doubt not, be equal to the earnings of the smartest workman in the factory.

"If for any reason the plan we propose should not be found to be as satisfactory to you or to ourselves, as we hope and expect, we shall be ready and hold ourselves at liberty to discontinue it. We present the proposition after mature thought, with the sincere wish and earnest hope that if accepted and understood it will be of some pecuniary benefit to you. But we do not wish it to be understood, as we do not claim that it is, a philanthropic or benevolent project. Sound business principles make the only foundation for a permanent and successful business.

"We mean for ours to continue on such a basis, and for our methods to be in harmony with correct thinking and just and liberal action. We hope it will be an incentive to all to make their services as valuable as possible, and a means of securing to all just and full returns for what they contribute to the success of the business. If it should prove to be a method by which capital and labor can together achieve better results, and an element in making labor more thoughtful and considerate and intelligent, and both capital and labor more considerate of each others' interests, our purposes will be realized. We would be glad to see Auburn have a larger measure of success. We would be glad to see hundreds more of homes occupied and owned by workingmen. We hope the land that has recently been sold in house lots will be covered with neat and comfortable houses, and owned by men and women who are conducting the business and doing the work that is making, and is to make Auburn, now the 'loveliest village of the plain,' a large and prosperous city."

At the close of Mr. Cushman's address, remarks were made by several of the employés in hearty

approval of the proposition, and three satisfactory representatives were selected from the employés to act with the firm in arranging and carrying out the details of the plan.

The success thus far has been stated in the above letter.

NEW HAVEN WIRE COMPANY.

The necessity for success in profit-sharing of some feeling of mutual confidence between employer and employé, based on previous fair dealing and generally peaceful relations, is emphasized by the experience of the New Haven Wire Company. This company, presided over by Mr. E. S. Wheeler, of New Haven, presented to their employés a well-devised plan of profit-sharing January 1, 1886, in accordance with which, after deduction of six per cent. on capital and a "proper sum for betterments and repairs to the works," one-fourth of the net profits should go to labor, but it met with no response from the men and was not therefore adopted, although in Europe employers have often persisted in their profit-sharing and waited, until the actual payment of dividends at the end of the year converted their employés. Mr. S. A. Galpin, treasurer, writes :

"It might, perhaps, meet with a more cordial reception from our men if again offered to them, because it is not improbable that their feelings in regard to it were very materially influenced by the fact that they had been for the preceding six months engaged in a strike, which closed by their surrender within a few days after this circular [of January 1, 1886,] was issued."

GEORGE H. KINGMAN.

Mr. George H. Kingman, a large shoe manufacturer at Brockton, has taken in his workmen as members of his firm. He is said to make a written agree-

ment with each workman by which the latter agrees to contribute any stated sum he may think best to the capital stock of the business. Upon this sum Mr. Kingman agrees to pay a stated percentage per year from the profits of the business, while personally assuming all risk of possible loss. Any workman may leave work on thirty days' notice, taking with him the money invested in the business. The men may belong to any labor organization, but being members of the firm they are not to strike or be locked out. Mr. Kingman writes: "The workmen agree that a fixed per cent. on what money they put in shall represent their share of the profit. I also have the right to employ or discharge whomsoever I choose. The plan has worked perfectly thus far, and I see no reason why it will not be satisfactory to all concerned."

PROFIT-SHARING IN THE GAS MANUFACTURE.

Mr. Eliot Tette, of 11 Walnut street, Boston, introduced profit-sharing in the early part of 1886 among the employés of several large gas corporations in which he was interested. In a letter of October 18, of that year, he thus describes his plan:

"My general plan in regard to profit-sharing in the companies which I have charge of is to promise to the men a certain percentage on the semi-annual dividend, this percentage being divided equally among the men. For instance, if the business of the company has been such for six months as to warrant a dividend of 3 per cent, I have divided among the men 3 per cent. on the total amount of dividend paid to the stockholders. If through want of care on the part of the men accidents have happened, or there has been waste of material or any other neglect through which the amount of *net* earnings has been diminished (and with them the dividend also) so that only $2\frac{1}{2}$ or 2 per cent. can be paid, the men get a sum of money equal to $2\frac{1}{2}$ or 2 per cent. on the amount of the dividend—and if for any cause it is necessary to pass a dividend

the men get nothing. The plan has been appreciated by the men, who show, I think, more than ordinary interest in the success of the companies. I think well of the plan thus far, and propose to extend its application to other corporations in which I am interested."

It will be noticed that a three per cent. dividend on a capital of \$20,000 would be \$6,000, and three per cent. of that only \$180. It must be borne in mind, however, that capital in the gaslight business bears an unusually large ratio to labor. On being asked if each man could expect to receive enough of the profits, under his mode of division, to be much affected thereby, Mr. Tette replied: "If anybody wants to carry out any plan of profit-sharing, he must of course make the amount divided among the employés sufficiently large to be acceptable to them. This is what I have done, and the men have expressed to me their gratitude and their appreciation of the plan."

BOSTON HERALD.

January 1, 1887, the Boston *Herald* instituted profit-sharing among their three hundred and twenty employés, including compositors, reporters, editors, counting-room, delivery and stereotype departments; in fact every one except space writers, who are paid by the piece for articles. Their circular is as follows:

TO THE HERALD'S EMPLOYÉS:

We beg to tender our New Year's greeting by stating to you a purpose which we have had for some time under consideration, and which we believe will be of interest to you.

We have decided to give our regular employés this year, as an experiment, a portion of the net profits of the business, after we have reserved a fair rate of interest on the capital invested.

The portion of the profits to be given to the employés will be divided among those who shall have been in the regular employ of the firm for the whole year, and they will share in proportion to

wages received. The amount to be divided will depend upon the financial results of the business, and we ask all our employés to coöperate with us in making these results as favorable as possible. We hope this experiment may be so successful that profit-sharing may be adopted by us as a permanent policy.

In addition to this division of profits, we suggest that a Herald Benefit Society be established, to which every employé shall contribute a small sum each week, and to this sum we propose to contribute a sum equal to the gross amount contributed by the employés.

The object of this society would be to provide a weekly allowance during sickness or disability, a fixed amount to be paid to some person designated in case of death, and possibly some form of pension for those who for any proper cause are unable to continue their work. We suggest that the details of the business and benefits of this society be managed by an executive committee, which should include representatives of the various departments of the business and ourselves.

We request that one person may be designated by each department to meet with us at an early day, for the purpose of discussing and arranging the rules to govern this benefit fund.

With the compliments of the season, we remain,

Yours truly,

R. M. PULSIFER & CO.

Mr. Pulsifer writes January 17: "The idea has been received with pleasure by our men."

The idea of profit-sharing is rapidly gaining ground in New England, and many manufacturers are only waiting to see the results of present experiments before adopting similar measures themselves.

It is stated that the Sperry Manufacturing Company of Ansonia, Conn., manufacturers of carriage hardware, divided a share of their profits with their employés at the last annual meeting.

As this goes to press news comes of the announcement made January 15th, by Rice & Griffin, manufacturers of mouldings, sashes and blinds, to their seventy-five employés, that in addition to regular wages one-half of the net profits of the business,

after reserving six per cent. interest on capital, will be given at the end of the year to all employés who have been in the business over six months of the year, according to their wages for the year. As the net earnings of the company have often been twelve to fifteen per cent. on the capital, there is here promise of a generous return to labor. As some one remarks: "There is not likely to be any strike in the Rice & Griffin Company this year."

Intimations are rife of still other experiments, which really need be called experiments no longer. Whether all admit the wisdom of profit-sharing or not, this much can be said: With one or two exceptions, noteworthy chiefly as exceptions, not a failure of the experiment can be found in this country or Europe, and even in the two or three cases where for reasons not wholly the fault of men the plan was finally abandoned, there was no failure of the company that tried the plan. In other words, while coöperation has risks incident to all business, indeed has had greater risks in the past, though promising better results in the future, profit-sharing, even if a failure, brings no failure to the business, and has every prospect of being a grand success directly from both a material and moral point of view. The proportion of profits to go to labor must vary with the nature of the business, but the principle of giving some part seems destined to a wide application in the immediate future.

X.

STATISTICAL TABLES.

The claim of exhaustiveness is not made for the following tables. Some companies, probably, have been overlooked. But the attempt has been made to include all large coöperative companies and as many smaller ones as possible. No company has been included which does not give an equal vote to all stockholders, without regard to the number of shares owned by them:

DISTRIBUTIVE COÖPERATION.

NAME.	Location.	Date of organization.	Capital.	Number of shares.	Number of shareholders.	Annual Trade.	Method of dividing profits, goods being sold at market prices, unless otherwise specified.
New Bedford Indust'l Coöp. Asso	New Bedford, Mass.	1876	\$ 3,000	300	94	\$ 48,000	Equal per cent. dividends on purchases of all. ¹
Coöp. Store Co. of Silver Lake...	Silver Lake, King- ston, Mass.	1875	1,800	360	40	10,500	" " " "
Plymouth Rock Coöp Store.....	Plymouth, Mass.	1877	4,000	225	....	42,000	" " " "
Sovereigns Coöp. Ass.....	Worcester, Mass.	1875	1,500	300	115	28,000	{ One-half as much dividend on trade to non-members as to members.
Adams Coöp. Asso.....	Adams, Mass.	1886	1,500	300	175	....	Same as last.
Arlington Coöp. Asso.....	Lawrence, Mass	1884	5,755	1,151	351	50,000	" " " "
New Britain Coöp Store.....	New Britain, Conn.	1876	12,700	200	200	75,000	{ 10 per cent. div. on purchases of members. 5 " " " " non "
Danvers Coöp. Union Society....	Danvers, Mass.	1865	5,000	500	499	25,000	Dividend on purchases of members.
First Swedish Coöp. Store Co. of Quinsigamond.....	Quinsigamond, Worcester, Mass.	1882	3,000	....	....	30,000 ²	" " " "
Gardner Sovereigns Coöp. Asso.	Gardner, Mass.	1875	3,000	1,000	260	36,000	" " " "
Riverside Coöp. Asso of Maynard	Maynard, Mass.	1875	5,000 ³	1,000	300	68,000	" " " "
Sovereigns Coöp. Asso of Webster	Webster, Mass.	1874	4,300	800	330	57,000	" " " "
Lowell Coöp. Asso.....	Lowell, Mass.	1876	10,000	2,000	500	37,000	Dividends on purchases of members.
Progressive Coöp. Asso.....	Worcester, Mass.	1883	4,000	800	99	24,000	" " " "
Lisbon Falls Coöp. Asso.....	Lisbon Falls, Me.	1885	....	....	....	....	" " " "
Dexter Coöp. Society.....	Lewiston, Me.	....	4,000	....	188	....	" " " "
Grange Store of Lebanon.....	Dexter, Me.	....	....	....	....	....	" " " "
Birmingham Coöp. Store.....	Lebanon, Conn.	....	....	....	....	16,000	{ Dividends on trade of all stockholders and patrons who pay \$2.
Beverly Coöp. Asso.....	Birmingham, Conn.	....	1,050	84	84	15,000	10 per cent. on purchases of members.
Harvard Coöp Society.....	Beverly, Mass.	1875	7,000	280	....	124,901	No dividends on stock or trade. Sell at cost.
Yale Coöp. Society.....	Cambridge, Mass.	1882	....	....	720	20,000	" " " "
Division 108.....	New Haven, Conn.	1885	....	....	500	13,000	" " " "
Natick Protective Union.....	Salmon Falls, N. H.	1850	6,986	341	202	48,000	{ 6 per cent. interest on capital. Low prices to every one.
Coöp. Store of Rochester.....	Natick, Mass.	1866	6,000	575	600	100,000	Same as last.
Carrol Coöp. Asso.....	Rochester, N. H.	1876	7,000	32	....	40,000	{ Benefit of low prices confined to Patrons of Husbandry.
Norway Coöp. Trade Asso.....	Carrol, Me.	....	....	....	....	4,000	Same as above.
	Norway, Me	1871	....	....	....	6,000	Same as above.

Foxcroft Coöp. Asso.....	Foxcroft, Me.....	.....	.....	.....	.....	4,000	{ Benefit of low prices confined to Patrons of Husbandry.
Belmont Coöp. Asso.....	Belmont, Me.....	.....	.....	.....	.....	4,000	"
Patrons Coöp. Corporation.....	Portland, Me.....	40,000	8,000	.....	.....	175,000	{ Benefit of low prices confined to Patrons of Husbandry; to trade, dividends.	
Torrington Coöp. Store.....	Torrington, Ct.....	1874	.....	.....	.....	60,000	Same as above.
Torrington Grange Store.....	Torrington, Ct.....	1874	320	.....	.....	16,000	"	
Sauvot	Sauvot, Me.....	1879	.....	.....	.....	.....	"
Morrill	Morrill, Me.....	.....	.....	.....	.....	.....	"
South Paris	South Paris, Me.....	.....	.....	.....	.....	.....	"
Norway	Norway, Me.....	.....	.....	.....	.....	.....	"
Topsham	Topsham, Me.....	.....	.....	.....	.....	.....	"
West Bath	West Bath, Me.....	.....	.....	.....	.....	.....	"
Freedomia	Freedomia, Me.....	.....	.....	.....	.....	.....	"
Dixmont	Dixmont, Me.....	.....	.....	.....	.....	.....	"
Swedish Mercantile Coöp. Asso.....	Worcester, Mass.....	1884	2,300	460	96	19,000	{ Benefit in way of dividends on stock, and low prices confined to members.			
Old Spain Coöp. Society.....	Weymouth, Mass.....	1882	1,500	300	130	30,000	Same as above.			
Division #2.....	Worcester, Mass.....	1847	18,000	130	130	150,000	"			
Amherst Coöp. Asso.....	Amherst, Mass.....	.....	1,200	.....	.....	42,000	"
Acushnet	New Bedford, Mass.....	1859	6,875	275	107	65,000	"			
Danvers	Danvers, Mass.....	1871	2,500	50	50	36,000	"			
Brockton Coöp. Cash Store.....	Brockton, Mass.....	1886	3,000	400	.....	.....	"	
Coöp. Market of Webster.....	Webster, Mass.....	1886	1,000	200	.....	.....	"	
K. of L. Coöp. Store Asso.....	N. Brookfield, Mass.....	1886	1,000	200	.....	.....	"	
Industrial Coöp. Asso.....	Olneyville, R. I.....	.....	.....	.....	.....	.....	"
Union Coöperative.....	Lowell.....	.....	.....	.....	.....	.....	"
Canadienne de Lowell.....	Massachusetts.....	.....	5,000	.....	.....	.....	"
Central Union Asso.....	New Bedford, Mass.....	.....	.....	.....	.....	.....	"
Aggregates as far as reported—53 companies.....							\$137,666	19,813	5,470	\$1,609,401

1Lately increased to nearly \$10,000. Per cent. of dividends on purchases to non-members henceforth will be only one-half that to members.

2Unofficial.

3Lately increased to nearly \$10,000.

The trade reported by the thirty-three stores making returns is \$1,609,401. The twenty-five stores giving returns also of capital reported a trade of \$1,508,401 on an aggregate capital of \$118,466, that is, capital was "turned over" 12.7 times. Applying this ratio to the seven other stores that reported their capital, amounting to \$19,100, but not their trade, and we may estimate their probable sales as \$242,570. If, now, we suppose twelve stores making no returns did an average business of \$4,003 or \$48,036 in all, we find the entire trade of the fifty-three stores to be \$1,900,007 made up as follows:

Trade of thirty-three stores reporting	\$1,609,401
Probable trade of eight others whose capital is \$19,100	242,570
Probable trade of twelve others	48,036
	\$1,900,007

In view of stores necessarily overlooked in this incomplete survey, and in view of the increase of trade of the other stores since returns were received, it is safe to estimate the entire business of coöperative distribution in New England at \$2,000,000.

PRODUCTIVE COÖPERATION.

The following table is taken from facts and tables given in the Massachusetts Labor Bureau Report of 1886, giving the figures of 1885.

NAME.	Location in all Cases in Massachusetts.	Date of organization.	Annual Product.	Capital.	Number of shares.	Number of shareholders.	Stockholders employed.	Employees not stockholders.	Average dividends.
American Coöper. Shoe Company.....	Stoneham.....	1882	\$50,000	\$30,000	120	91	24	22	.....
Athol Coöper. Furniture Company.....	Athol.....	1870	15,000	5,000	80	33	4	3	.....
East Templeton Coöper. Chair Co.....	East Templeton.....	1872	15,000	20,000	200	38	14	9	1.834
Franklin Coöper. Shoe Co.....	Stoneham.....	1883	30,000	20,000	40	69	26	10	.....
Kingston Coöper. Foundry Co.....	Kingston.....	1876	20,000	11,500	119	90	11	4	0.75
Leonard Coöper. Foundry Co.....	Taunton.....	1877	75,000	25,000	250	47	24	18	3.62
Middlesex Coöper. Shoe Co.....	Stoneham.....	1875	90,000	15,000	40	47	24	10	7.60
Somerset Coöper. Foundry Co.....	Somerset.....	1867	75,000	30,000	300	48	30	10	7.60
Stoneham Coöper. Shoe Co.....	Stoneham.....	1873	150,000	20,000	80	57	35	35	14.15
Wakefield Coöper. Shoe Company.....	Wakefield.....	1883	55,000	15,000	150	80	12	8	.....
Aggregate—10 companies.....			\$605,000	\$106,400	1,379	579	212	135	

Losses by fire.

All profits go to stockholders.

The business for 1886, allowing the same rate of increase, ten per cent., as in recent years, was in all probability as much as \$665,500 in the above ten companies.

Two companies outside of Massachusetts—at Nashua, N. H., and South Rygate, N. H., report a trade for 1886 of about \$50,000, and returns as follows have been received from coöperative productive companies other than those in the above table, that were in business during all or part of 1886.

PRODUCTIVE COÖPERATION.

NAME.	LOCATION.	Capital.	No. of Shares.	No. of Shareholders.	No. of Workmen.	Date of Beginning Business.	Business in 1886.	Estimate of Business in 1887, based on business of Nov. to Jan. 1886-87.	
Coöp. Granite Works of S. Ryegate, Rhode Island Coöp. Printing and Pub. Co.	South Ryegate, Vt.	\$2,900	59	23	14	1885	\$8,000	\$8,000	All profits go to stockholders. Nine stockholders are workmen.
S. Norwalk Coöp. Hat Co.	Providence, R. I.	1,800	360	260	.....	1886	6,000 ¹	7,200	All profits go to stockholders. Labor organizations own part of stock. All workmen must be stockholders.
Coöp. Iron Foundry.	South Norwalk, Conn.	5,000 ¹	50	35	90	1885	30,000 ¹	30,000 ¹	All profits go to stockholders. About one-third of workmen own stock.
North Dighton Coöp. Stove Co.	Nashua, N. H.	22,000	220	..	.....	1881	42,000	42,000	All profits above 6 per cent. interest on capital go henceforth to labor.
Lynn K. of L. Coöp. Boot and Shoe Co.	Taunton, Mass.	11,500	175	27	22	July 1886	.....	.....	All profits go to stockholders. 17 workmen own stock.
Spencer Coöp. Boot and Shoe Co.	Lynn, Mass.	8,000 ²	80	60	40	1886	35,000	60,000	About 35 workmen own stock. 10 per cent. of net profits go to K. of L. Assn. 45 per cent. net profits go to stockholders.
Coöp. Printing and Pub. Co. of Boston	Spencer, Mass.	6,200	620	100	15	1886	12,000 ¹	30,000	After payment of 6 per cent. interest on capital, and reserving 20 per cent. of net profits for sinking fund, rest goes to labor and capital in proportion borne by year's wages and cap'l. 10 per cent. net profits goes to labor.
Coöp. Granite Works. Haverhill Printing and Pub. Co.	25 Beach street, Boston, Mass.	5,000	500	40	25	1886	.....	.....	5 " " " Dist. 30, K. of L. 10 " " " is reserved as surplus. 25 " " " for contingencies. 50 " " " goes to propaganda.
Aggregate—10 Companies.	W. Quincy, Mass. Haverhill, Mass.	\$62,400	2,034	545	296	.....	\$123,000	\$177,200	

Estimate by writer, where companies neglected to report and in one or two cases declined to make complete returns. In most cases, especially at Lynn and Spencer, the estimates are certainly not far from the truth. ¹ Since increased to \$10,000.

If we assume that the four companies from whom no return of trade has been obtained average a business of \$13,000, or a total of \$52,000, and one, the Coöperative Printing and Publishing Company of Boston, probably did a business of over \$20,000, the entire business of the coöperative production in New England in 1886 may be safely estimated thus:

\$665,500—as per previous table, increased
 ten per cent from 1885.
 133,000—business reported above.
 52,000—business estimated.

\$850,500—total business of twenty companies
 in 1886.

The present rate of business of these companies, joined to what may be done in the companies just organized, viz.: The K. of L. Coöp. Elastic Fabric Company of Chelsea; Scituate Coöp. Shoe Company, of Scituate, Mass.; Westboro Factory Association, of Westboro; K. of L. Coöp. Boot and Shoe Company, of Beverly, Mass., and the Brockton Coöp. Boot and Shoe Company, of Brockton, gives certain promise of a business exceeding \$1,000,000 in 1887.

CREAMERIES.

The following creameries in Massachusetts were doing business in 1886. They were not minutely investigated, from lack of time and from the belief that they were of less moment than other classes of coöperative enterprises, although undoubtedly doing a good work, and, as a whole, prospering in it.

NAME.	LOCATION.	Capital.	Value of a Share.
Springfield Coöp. Creamery..	Springfield, Mass..	\$22,000	\$20 00
Lowell Coöp Milk Asso.....	Lowell, “	25,000	20 00
Amherst Coöp Creamery Asso.	Amherst, “	2,700	10 00
Berkshire Creamery Coöp Asso.	Sandisfield, “	1,400	25 00
Conway Coöp. Creamery Asso.	Conway, “	3,500	25 00
Cummington “ “ “	Cummington, “	2,500	25 00
Egremont “ “ “	Egremont, “	3,500	35 00
Hatfield “ “ Co...	Hatfield, “	1,500	60 00
Hinsdale “ “ Asso.	Hinsdale, “	4,000	24 00
Rutland “ “ “	Rutland, “	2,000	10 00
Aggregate—10 Companies.....		\$68,100	

The Amherst Company on a capital of \$2,700 did a business of about \$60,000 in 1886. It is probable all the above, together with coöperative creameries in the other New England States, did a business in 1886 of \$500,000.

It is expected that the forthcoming report of the Massachusetts bank commissioners will reveal a business of \$3,500,000. Certainly the coöperative banks of Massachusetts and the five or six of the other New England states have done that amount of business in 1886. The aggregate business of these various forms of coöperation in 1886 may be thus found:

Distributive coöperation did a business in 1886 of.....	\$2,000,000
Productive coöperation exclusive of creameries did a business in 1886 of.....	850,000
Creameries had a profit of.....	500,000
Coöperative banks did a business of.....	3,500,000
Total.....	\$6,850,000

Possibly, enough coöperative companies have been overlooked, or business underestimated in this investigation, to swell the total to \$7,000,000. The coöperative business of New England in 1887 will surely reach \$7,000,000.

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RELATION OF THE STATE
TO
INDUSTRIAL ACTION.

*Let the State be considered as subordinate to the people;
but let everything else be subordinate to the State.*

MR. JUSTICE WILSON, 1792.

By HENRY C. ADAMS, Ph. D.,

Lecturer on Political Economy and Finance at the University of Michigan,
and Associate Professor in the same at Cornell University.

AMERICAN ECONOMIC ASSOCIATION.

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PREFACE.

The following essay is a revision, and an extension, of a paper read before "The Constitution Club" and "The Institute of Social Science," both of the City of New York, and published by the first-mentioned society under the title, "Principles that Should Control the Interference of the State in Industries." Its appearance in its present form is due to the fact that more applications have been made for the original address than could be supplied, and this was interpreted as an expression of interest in the topic. It is of course impossible to treat at all adequately so important a subject as "The Relation of the State to Industrial Action" in a single monograph. Still no serious misunderstanding is apprehended, except possibly in connection with the explanation of prevalent corruption in municipal administration: and upon this point it may be well to say, that the purpose of this essay is not so much to expound a final theory respecting the evils of local government, as to leave the impression that the problem of local government is but a subordinate part of the great social problem.

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"The greatest part of mankind may be divided into two classes; that of *shallow* thinkers, who fall short of the truth, and that of *abstruse* thinkers, who go beyond it. The latter class are by far the most uncommon; and I may add, by far the most useful and valuable. They suggest hints, at least, and start difficulties, which they want, perhaps, skill to pursue; but which may produce very fine discoveries, when handled by men who have a more just way of thinking. At worst, what they say is uncommon; and if it should cause some pains to comprehend it, one has, however, the pleasure of hearing something that is new. An author is little to be valued, who tells us nothing but what we can learn from every coffee-house conversation."—*David Hume*.

RELATION OF THE STATE
to
INDUSTRIAL ACTION.

INTRODUCTION.

In his latest contribution to the discussion of social topics, Mr. Spencer has collated, for the benefit of his readers, a long list of acts passed by Parliament pertaining to industrial affairs. These enactments he regards as an invasion of the domain of personal liberty, because an encroachment upon the "*régime* of contract." He conceives it as beyond question that "government is begotten of aggression and by aggression," and for that reason deprecates the willingness on the part of legislators to pass laws regulating the processes of production, or extending the administrative duties of the state. His idea seems to be that the most perfect society which it is possible to realize under given conditions, must emerge from the struggle for individual existence under "voluntary coöperation." All this, as is well known, is the doctrine of *laissez-faire*, presented it is true, in a clear and powerful manner, yet presented without modification or apology. That Mr. Spencer would not dissent from such an interpretation of his four articles, published under the title of "The Man *versus* the State," is shown by the severity of the

implied censure which he visits upon the Cobden Club, for having awarded its prize in 1880 to an essay which declared, that "the truth of free trade is clouded over by the *laissez-faire* falacy."

These articles by Mr. Spencer are most interesting and instructive, and much which they contain seems to me to be true. Ignorant legislation is certainly criminal legislation.¹ Laws which rest upon the assumption that government is *in loco parentis* to its subjects, will never witness the development of a people of manly and independent intelligence. The homely maxim that every tub must stand on its own bottom, as also the more ambitious one that every man is the center of his own universe, suggests sound social truths which legislators cannot afford to disregard. "The intrusion of family ethics into the ethics of the state," by which philanthropy becomes compulsory and misfortune establishes a claim, is illogical to say the least, and will probably result in harm.² Nor is anyone more ready to admit than myself, that laws which purpose to supplement the income of laborers by state aid, will surely result in the decrease of wages, a conclusion which is amply supported by the history of the English poor-laws during the last century.³ And especially pertinent does it appear to me to accept the ultimate effects rather than the immediate results of legislation as the final test of its wisdom, for it is a truth too often forgotten that laws make up the artificial environment to which society in its development must conform.⁴

¹The Man *versus* the State, p. 47.

²Idem, p. 66.

³Idem, p. 22.

⁴Idem, p. 23-24.

And yet, notwithstanding the many truths contained in this interesting discussion, its main conclusions are regarded as untenable by many whose intellectual discernment is at least respectable. It is by no means universally admitted, even among the studious, that the power of government, which properly interpreted is but the authoritative expression of the will of society, should be more sparingly used as society becomes more complex; nor does it pass without question that the best possible results will in all cases follow "voluntary coöperation" under the "*régime* of contract." Indeed there are many men who presume to think a higher code of morality may be realized in business affairs than is imposed by the unregulated workings of the law of supply and demand. Such claims as these are, of course, a distinct denial of the finality of Mr. Spencer's philosophy of social relations, and consequently of the completeness of the analysis upon which it rests. But it is not my purpose to enter upon a critical analysis of this philosophy. Such a task should certainly have been begun with a frank acknowledgement of the indebtedness of the world to the author of this system. The attention of the reader has been drawn to these latest expressions of Mr. Spencer merely for the purpose of showing that, in the mind of the great English philosopher at least, the question of the relation of government to industries is a question of great practical importance. Indeed, its bearing upon current affairs is so direct, that all men of thought desire not only to have an opinion, but a reason for their opinion.

Yet it seems hardly necessary to resort to such a measure for the purpose of emphasizing the impor-

tance of the theme treated in this essay ; for, in the entire range of social and political problems, there are but few which do not, either directly or indirectly, touch upon the power and ability of the government to control industrial action. The railroad problem, for example, has in this country passed beyond the stage at which the right of legal control is contested. That point was settled by the interpretation of the courts, on the "granger laws," and the only question which at present remains has to do with the manner in which the needed control may be successfully exercised. Education is now quite generally regarded as a proper object for the care of government, and its support as a proper source of public expenditure. It is true that the same phase of this problem is not presented to all people. The English are inquiring how to establish secondary education to the best advantage, the people of this country, on the other hand, having determined upon the general principles according to which that grade of education should be managed, are turning their attention to technical education, but in neither case is there serious objection to the appropriation of public moneys for such purposes. Or to speak of social problems and labor agitations, we find the sentiment of the great majority of people whose lives are touched by these questions to be largely colored by the thought that somehow governmental agencies are to cure the evils of which complaint is so justly made. Consider for a moment the varied and extensive demands which self-appointed representatives of the laborer's interests make upon government. The government is to build houses for men; the government is to strike bargains

for men; the government is to make play for men; the government is to find work for men; indeed, all that men want done, or think they want done, they want, or think they want, the government to do. And it would but strengthen the impression thus gained were we to consider with care the systematic plans of state socialists for revolutionizing industrial affairs.

How may we properly regard such a tendency in public thought? It will add somewhat to my sense of intellectual liberty in making reply to this question, though it may perhaps be unnecessary, if I say, that the opinions expressed throughout this essay are personal opinions, and should not be regarded as representative in character. A new school of thought must of necessity present a less solid front than an established school. Speaking then for myself, I may say, that I sympathize most profoundly with the apprehension expressed by Mr. Spencer in his doleful articles. It is certainly true that much of current legislation enfolds within itself the seeds of a "coming slavery," and that the confidence reposed by unthinking men in the agencies of government springs from the natural optimism of the human mind, rather than from a careful analysis of what the government is. But our escape from the pernicious consequences of such a tendency will not be found in the continued proclamation of a negative philosophy. The only scholarly course lies in subjecting social and industrial relations to a deeper analysis than is presented by those who submit superficial plans of reform. Or, again, it may even be admitted that government is a weak and inefficient thing, obedient to the nod and beck of private interests. But it does not follow from such an admission

that a wise man will knowingly render government yet weaker, or more corrupt and more inefficient, by continuing to preach the illogical doctrine of *laissez-faire*. It is at the instance of such suggestions as these that my own thought parts company with the trend of opinion which passes under the name of English economy.

The facts in the case are these: There is at the present time a growing clamor for more government, and, with manhood suffrage, such a clamor will surely secure that which it demands. But government is not a simple or a homogeneous thing. The extension of its functions may mean the extension of any of the three departments into which its powers are necessarily divided, namely: the judicial, the administrative, or the legislative department; or it may result in changing the balance of the powers distributed between the various grades of authority: the Federal government, the State government, and the minor civil divisions. It seems, then, there are several ways in which this demand for more government may be supplied, and in view of the fact that the social workings of public authority are very different according to the nature of the authority, or the center from which it is exercised, and in view of the further fact that the preaching of a philosophy of negations is powerless to quiet the clamor to which existing social evils has given rise, it seems but common sense for men of mental discernment to seek to direct the extension of public authority. This is equivalent to saying that the subject of this essay is pertinent to the times.

This same thought may be presented in another and perhaps a clearer light. It is fact which politi-

cians visit with reproach upon economists, that men who received their education previous to 1860, and who came from college believing in free commercial intercourse as in a new gospel, have, with their maturer years, felt obliged to confess the optimism of their youth to have been a mistake. But in reality there is nothing remarkable in such a fact when it is remembered that the free trade of that day was but a logical conclusion from the dim and uncertain premises of Bastiat and the Manchester school of economists. For it was found by these men, in the actual management of business affairs, that the premises which as students they had accepted were not of universal application. It was observed, for example, that the tyranny of corporations, which grew naturally from conditions of "industrial freedom," was as grievous as any tyranny ever established by government agency. In this respect, at least, the theory "that Liberty is the fairest of social Harmonies" did not work as their professors had promised. Since, however, political economy had been pursued by them as a mixture of logic and philosophy, rather than as a phase of social development, they did not possess that habit of mind which easily discriminates in the application of principles. It followed as a matter of course that they abandoned free trade. Such is believed to be the mental history of many men of influence in the United States.

But such a surrender of the doctrine of free-trade, though serious enough in itself, is of slight importance when compared with the tendency of which it is a specific illustration. The most unfortunate consequence of so vicious a method of education in economics is found in the fact that the collapse of faith

in the sufficiency of the philosophy of *laissez-faire*, has left the present generation without principles adequate for the guidance of public affairs. We are now passing through a period of interregnum in the authoritative control of economic and governmental principles. This is indeed cause for grave solicitude, for never were there more difficult problems demanding solution than at the present time, and never were men, so poorly equipped for the accomplishment of such a task as are those upon whom these questions are being forced. Herein lies the especial pertinency of the topic considered in this essay. Principles of action we must have, for nothing is so mischievous as the attempted solution of great questions on the basis of immediate interests alone. An erroneous principle, indeed, is better than no principle at all, for it can at least secure some degree of harmony in social affairs. The problem may be stated in a word, as follows: The authority of English economy is shattered beyond recovery; can a truer system of economic thought gain control over the American mind?

ANALYSIS OF THE DOCTRINE OF LAISSEZ-FAIRE.

It is impossible, in any discussion upon the proper extent and nature of state functions, to evade the necessity of granting the doctrine of *laissez-faire* a rehearing. No doctrine could have gained such a respectable following except it contained some truth, and it is wise to search for that truth. But of more importance than this, it is against the assumptions of this doctrine that the theory of extended state functions is urged, and for that reason it is natural to

expect its analysis will suggest some rules for directing the action of government. That system of thought known as *laissez-faire* has been termed vague, elusive and indefinite; but such expressions are quite incorrect. Indeed, its great influence over the minds of men is largely due to the compactness with which it may be presented, and to the logical form of which its statement is capable. "When those who have been called the *laissez-faire* school have attempted any definite limitation of the province of government," says Mr. Mill, "they have usually restricted it to the protection of person and property against force and fraud."¹ From this it appears that, in speaking of the claims of *laissez-faire*, we are dealing with a rule laid down for the control of all matters of government, and have to do with "permanent and universal principles of human nature," only so far as we undertake to explain the basis upon which it is conceived to rest.

But this rule which places the government outside all positive direction in industrial affairs may be held in either of two ways. It may be accepted as a premise of universal application to which all legislation must conform, or it may be regarded merely as a maxim, though a maxim with presumption always in its favor. It need hardly be remarked that Bastiat, who mistakes satire for argument, and whose easy writing has been frequently accepted for clear thinking, stands as the representative of this first theory of interpretation. He does not carry his analysis far enough to distinguish between competition as a principal of action, and *laissez-faire* as a dogma for the guidance of government; but defin-

¹Principles of Political Economy, Book V, ch. 11, sec. 1.

ing competition as freedom from restraint, and freedom from restraint as liberty, he conceives all the complicated questions of society to have been asked and answered when he exclaims: "Who so base as to be a slave!" It is such reasoning as this, reasoning which confuses the student by confounding realities with fancies, that is in large degree responsible for the ineffectiveness of economic teachings.

It does not, however, seem necessary to dwell long upon the extreme statement of the dogma of *laissez-faire*. Practical men have expressed a decided unwillingness to accept a premise which precludes the possibility of discussing many problems of current interest. They desire to decide according to observed results, rather than on the basis of an assumed premise which admits of one conclusion only. Nor would it be right to say that all economists, who are properly regarded as members of the English school, maintain the doctrine of non-interference in its extreme form. Thus Mr. Mill follows the statement of his definition, which I have given above, with the remark that it presents a rule to which strict adherence is impossible, for "it excludes some of the most indispensable and unanimously recognized functions of government;" but when he proceeds to mention these exceptions, he does not go very far beyond the simple rule laid down. Professor Cairnes, also, after a critical analysis, concludes that the doctrine of *laissez-faire* establishes no rule of scientific pretensions, although in his opinion it is one to which governments should in the main conform. It seems to have been the purpose of Professor Cairnes, as shown in his writings, to turn the current of economic thought back to Ricardo, and,

avoiding certain mistakes which he believed others to have made, to develop from the Ricardian doctrines a more consistent and truer line of thought. It is for this reason that his views upon the scientific pretension of *laissez-faire* are of much importance.

In proceeding to argue this point, he says:

“I must ask you in the first place to note what this doctrine of *laissez-faire*, if it is to be taken as a scientific principle, really means. The implied assertion, as I understand it, is this: that, taking human beings as they are, in the actual state of moral and intellectual development they have reached; taking account of the physical conditions with which they are surrounded in the world; lastly, accepting the institution of private property as understood and maintained in most modern states—the promptings of self-interest will lead individuals, in all that range of their conduct which has to do with their material well-being, spontaneously to follow that course which is most for their own good and for the good of all. Such is the assertion with which we have now to deal, and you will see at once that it involves the two following assumptions: first, that the interest of human beings are fundamentally the same—that which is most for my interest is also most for the interest of other people; and secondly, that individuals know their interests in the sense in which they are coincident with the interests of others, and that, in the absence of coercion, they will, in this sense, follow them.”¹

This is without doubt a fair statement of the question at issue. If these two propositions are capable of substantial proof, there is no escape from the practical conclusion that society will realize the best of possible results from the unregulated freedom of individual action; but if, on the other hand, either of these propositions are found to be in error, we must abandon at least the universality of the rule of non-interference as a premise of public legislation. It may perhaps be admitted that fundamentally, and in the long run of two or three generations, the interests of all members of society are the same;

¹Essays in Political Economy. p. 244.

although, as Professor Cairnes himself remarks, this should not be confounded with the statement that class interests are identical. It is true that society is organic and not mechanical, and that each part suffers with the refusal or inability of any other part to perform its ordinary functions. This thought is readily admitted by even the most extreme of socialists and is made by them the apology for much which they advocate in favor of extending the duties of the state.

But the second proposition cannot be admitted as of universal application. It is not true that, when a man advances his own interests or what he believes to be his own interests, he thereby necessarily advances the interests of society. This may be the case and again it may not. It seems hardly necessary to illustrate at length a fact which finds continual proof in the ordinary experiences of men's lives. The entire railroad history of this country, as of every country which has endeavored to realize in construction and management the doctrine of restricted governmental control, serves to illustrate how false is such a claim. The interests of construction companies, for example, have led to the creation of twice as much railroad property in the United States as the needs of the country require. This is a misapplication of capital, a misdirection of industrial energy, and can have no other result than to obstruct healthful growth. Yet the construction companies have made it pay. Or, if we turn to consider the management of such railroad lines as are now built, we see that this excess of railroad property necessitates the adoption of false principles for adjusting tariffs. The management of the grain ele-

vators at Buffalo is railroad management in miniature. As stated by a special committee of the Assembly of New York in 1880, there were at Buffalo thirty-four elevators, of which twelve only were needed to do the work of elevating. "It makes no difference," says the report, "what elevator does the work, all get their respective shares of the money earned. One of these has not been used in twenty years, and many of them, according to the testimony, were built for the sole purpose of coming into and receiving a share in the pool."¹

The same principle that useless property must be paid for, is found in the management of smaller circles of industry. The Wall-paper Association pays to the owner of a paper-mill on Long Island the sum of \$25,000 a year for not running a mill. It is said, though for this I only have newspaper authority, that Mr. Chamberlain, the English statesman, receives payment each year for not sending screws to this country. Or if we turn our attention to workmen's unions, we find that they administer the apprentice rules in such a manner as to tend to establish within their order an aristocracy of labor, thus decreasing product and in consequence the fund from which all labor must be paid. These illustrations were brought to our notice, not for the purpose of leading to a discussion of the policy of pooling, but rather to enforce the truth that there exists a necessary antagonism between the actions of men when directed by personal motives, and their action when made to conform to the social interests. Even Bastiat recognized the "anti-social" interest of the

¹ Report of the Special Committee on Railroads. Albany, N. Y., 1880, p. 15.

producer, and for that reason took the interest of the consumer as the true test of right action.¹

But I cannot think this the most satisfactory manner of exposing the fundamental error in the philosophy of *laissez-faire*. It was said above that the strength of this doctrine lay in the simplicity of its statement, and in the logical form of which its argument is capable; but a careful student, so far from being deceived by this, will rather be assisted in detecting any mistake with which the argument is chargeable. It is evident that the second of the propositions accepted from Professor Cairnes, is the minor premise of a syllogism of which the first proposition serves as a major. The formal statement then of this syllogism would be as follows :

Major premise.—All human interests are the same.

Minor premise.—Each man knows his own interest, and if left to himself, will follow it.

Conclusion.—The best possible form of social relations will emerge from the unrestricted play of industrial freedom.

We need not trouble ourselves to criticise the wording of this conclusion, or to inquire what is intended by the expression “industrial freedom,” for the argument has gone astray before the conclusion is reached. Indeed, it disregards the most elementary of the rules of logic, for the words used do not bear the same meaning in all parts of syllogism. Thus the major premise contemplates the fundamental or the ultimate interests of men, while in the minor premise it is the immediate interests that are brought to view. But it is a fact with which men are painfully familiar, that even in their personal affairs,

¹Sophism of the Protective Policy, Lieber edition, p. 28.

they are prone to sacrifice their ultimate interests for their immediate pleasure, and that the motives which control their actions are strong in a ratio inversely to the remoteness of the pleasure to be gained or the pain to be warded off. How then can it be reasonably concluded that the social interest, which is usually the remote interest of the individual, will be in the highest degree served by granting unobstructed play of industrial freedom? There must be, for organisms of an advanced development, a higher law than the law of personal struggle for individual existence.

Or, to proceed a step further in the direction which this criticism points out, the interests which control individual action are frequently speculative interests, while the idea of speculation is foreign to the most simple conception of society. By the word speculation is to be understood any transaction which permits a man to make a personal gain at the expense of his fellow-men. A gambler, whose earnings are balanced by the losses of those with whom he plays, belongs to the large army of speculators. The holding of real estate for a rise in value is speculation. When a merchant charges more for goods than is adequate to cover a fair return for his labor and risk in buying and arranging them for sale, he too becomes a speculator. Or should the force of competition compel him to sell goods at a loss, the speculative character of the transaction is not changed because his customers happen to be the gainers. In short, speculation consists in the endeavor to gain possession of more value than one creates, and the familiar adage that "speculation is the life of trade" shows that men have come to regard this purpose as

a legitimate motive for personal conduct. But society recognizes no such interest. Society is a unity and permits of no comparative estimates. Its gains are creations of values, its losses destructions of values. How then is it possible to say that a syllogism which confounds two such diverse things as an absolute interest and a relative interest can lead to truth?

This is not exactly the manner in which Professor Cairnes presents the subject, but it is in harmony with the conclusion which he formulates. "There is no security," he says, "that the economic phenomena of society, as at present constituted, will always arrange themselves spontaneously in the way which is most for the common good. In other words, *laissez-faire* falls to the ground as a scientific doctrine." But two things are to be noticed with regard to the views of Professor Cairnes. First, he does not accept the opposing doctrine of paternal government, but holds himself at liberty to consider every question on its own merit; second, he does not appear to perceive the necessity of formulating another principle for the control of social and industrial development, which may take the place of the one whose authority he has overthrown.

"Let us be careful," says he, "not to overstep the limits of our argument. It is one thing to repudiate the scientific authority of *laissez-faire*, freedom of contract, and so forth; it is a totally different thing to set up the opposite principle of state control, the doctrine of paternal government. For my part I accept neither the one doctrine nor the other; and, as a practical rule, I hold *laissez-faire* to be incomparably the safer guide. Only let us remember that it is a *practical rule*, and not a doctrine of science; a rule in the main sound, but like most other sound practical rules, liable to numerous exceptions; above all, a rule which must never be allowed to stand in the way of a candid consideration of any promising proposal of social or industrial reform."¹

¹Essays in Political Economy, p. 251.

It is certainly granting English economy a most favorable interpretation to accept Professor Cairnes as its spokesman in this matter, and it is by no means certain that all its advocates would admit his representative character. Some economists, indeed, yet live who maintain, with heroic devotion, the philosophy of negative action, while others, who may not, perhaps, sympathize with the extreme statement of the theory of individualism, would nevertheless object to the language in which its modification is here presented. And it must be admitted that a great deal depends upon the manner in which one's views are expressed. The concessions granted by Mr. Mill, for example, amount to little when we notice how strictly he guards his exceptions to the rule, that the state should not interfere with industrial action. "*Laissez-faire*," he says, "should be the general practice; every departure from it, unless required by some great good, is a certain evil." But we need not trouble ourselves with the varying views of important economists, for it will do no violence to the general trend of opinion to proceed upon the assumption that the doctrine of non-interference is now held as a maxim and not as a principle of scientific pretensions. Or to adopt the familiar phrase of those who advocate the modified form of *laissez-faire*, there is in all cases a strong presumption against state action, and in favor of what Mr. Spencer calls "the *régime* of contract." 1

We have now arrived at the critical point in our analysis. Is this view of the case tenable? May we rest satisfied with accepting the presumption against state activity as a sufficient guide for constructive work in economics? It will probably be conceded 7

that this modification of the old doctrine is an advance upon the opinion which held the dogma of non-interference to be identical with the principle of individual liberty, and which assumed reasons for the latter to be arguments for the former. But the economist desires to go one step farther. The important question with him is the following: Has Professor Cairnes restored to political economy its old-time authority by admitting possible exceptions to the premise on which it is built, or has he only succeeded in marring its symmetry and destroying its logical form? It must certainly go hard with those who, educated in scientific methods, are thus left with a system of thought on their hands, from which the scientific pretension of its fundamental principle of human relations has been taken away. This amendment to the old doctrine has reduced English Economy from the dignity of a science based on a principle to a philosophy based on a maxim.

And yet they who advocate the modified form of *laissez-faire* make a great parade of its authority, and urge that the old economy has not been radically changed by admitting the modification. It is to me indeed strange how a logical mind could have arrived at such a conclusion, and the only interpretation of which this seems capable is, that they who maintain it can never have fully appreciated the grand simplicity and symmetry of the old doctrines at the time when they swayed the minds of men. There was behind the Physiocrats, for example, an irresistible power when they appealed from the artificial arrangements of the eighteenth century to the authority of the law of nature. It is true there was no real thing corresponding to their conception of a law of nature, but

they did not commit the strategic blunder of carrying through a line of argument on the assumption of its existence, and then proceed to classify the conditions under which society could safely disregard its demands. They did not say "there is a strong presumption" in favor of obeying nature; or that "it is a sound maxim" to obey nature; or that "it should be the general practice" to obey nature. Had they proceeded in this manner they would never have gained influence over the minds of men, for this would have been an admission that common sense is superior to a scientific principle. Yet this is the unfortunate position into which Professor Cairnes, by his trenchant analysis of the scientific claims of *laissez-faire*, has brought English economy. In its present condition it is a system of thought whose formal arguments are quite in harmony with the assumption that there exists a premise of action of scientific pretensions, but the life and force is taken from these arguments by the denial of such a premise.

The truth then, with regard to the modernized statement of English economy, as compared with its original presentation, is this: In its original form it was conclusive as an argument though based upon an erroneous premise; in its modernized form the error of its premise has been corrected, but its conclusiveness as an argument has thereby been destroyed. It is for such a reason that I cannot regard the modifications suggested by Professor Cairnes as satisfactory. I can understand Mr. Spencer, for he is logical and consistent throughout. I can even understand Professor Sumner, and take pleasure in reading his sweeping generalizations. But I cannot

understand the habit of mind which rests satisfied with a philosophy of social or industrial relations not founded on principles, for such a position is wholly unscientific. It is a common complaint of men trained in the schools that practical men disdain theories. But certainly these economists of the modern English school cannot justly utter such complaint; for the practical men who deify their common sense, and who boast of judging every question on its own merits, follow to the letter the line of reasoning which the latest books lay down. English economy lost its authority because it abandoned principles and took to presumptions. It can never regain its authority until it returns to principles, though these must be broad enough and deep enough to comprehend all the various phases of activity in industrial society. This is the problem for the "new economy," and nothing but its solution can warrant the claim that a new economy has been born.¹

My readers need not be at all solicitous lest the views here expressed should disparage the influence of the presumption against the interference of the state in industrial affairs. The truth underlying the modified form of the doctrine of *laissez-faire* is unimpaired by the collapse of the elaborate argument upon which it was believed to rest. And what is

¹I may perhaps be permitted to say in a note, though it would be out of place in the text, that I cannot regard history as adequate to take the place of the principle of individualism which has been forced to abdicate its seat of authority. History is admirable as a tool, but can never perform the functions of a principle in a system of thought. It seems to me that the problem in hand is much more difficult than many students are willing to admit. It is nothing less than the formulation of a sociology into which the science of industrial society may find its proper chapter.

that truth? Should we follow in our analysis far enough we would perceive it to be nothing but the statement of a common sense rule of conduct, viz.: that it is wise to be conservative. Any institution or custom capable of maintaining itself rightly claims presumption in its own favor as against an untried plan, however plausible. This truth, then, is the expression of the instinct of conservatism so strongly developed in the English and American character. At the present time the rule happens to hit those economists who propose to extend the functions of government, for the established thing, so far as domestic affairs at least are concerned, is individual and not governmental control. But this coincidence is an historical accident. The presumption would be against the extension of individual control if the state were in possession of the field. It is this fact, this accidental coincidence between the judgments which spring from natural conservatism and the presumption against extending the duties of the state, which deceives men, and brings them to think that the modified form of *laissez-faire* yet bears with it an authority. Its authority is nothing more than the authority which always rests with an established fact.

In the foregoing analysis I have endeavored to establish two conclusions. First, that the doctrine of *laissez-faire* cannot lay claim to scientific pretensions. Second, that the abandonment of its scientific pretension destroyed whatever authority English economy ever had as a guide for constructive economics, except so far as it is an accidental expression of the instinct of conservatism. My further analysis proceeds upon the assumption that the

reader is willing to grant these conclusions to have been established. It is quite natural that men who arrive at this point in their study of social relations, should turn eagerly for relief to those writers who first pointed out the error of the old system; a fact that may, perhaps, explain the readiness with which so many American economists have accepted the teachings of German investigators. The rule for separating the duties of the state from those of the individual, as laid down by German writers, is quite different from the one we have thus far considered; indeed it is the re-statement of the English rule with a reversal of its terms. In all cases of doubt, it is distinctly German to say that presumption lies with the state and against the individual. It would of course be incorrect to say that all writers hold to this rule, for, as in England there are many who are not English economists, so in Germany there are some who do not regard the state as the final thing in social analysis. But it is nevertheless true that the views just expressed are characteristic of German economic philosophy and fairly realized in German polity.

It is not my purpose to consider this rule at length. So far as it rests upon analysis it proceeds from the assumption that some industries are from their nature "sovereign in character." Thus all businesses pertaining to transportation, as railroads, expressage, telegraphy, postal service, and the like, pertain naturally to the state. These are the nerves and arteries of the body politic, and should be directed from a common center. It is indeed a little ludicrous to notice the almost superstitious reverence with which a certain class of German writers trace out the analogy existing between the social organism and physi-

cal organisms. But the more rational thought seems to be that the government may properly take the initiative and control in all forms of business which possess what is termed "the collective interest," and since so many businesses are observed to fall into this class, German writers have cut the matter short by saying that presumption lies with the state, and by throwing upon individuals the burden of proof. This contrast between the trend of the English and the German mind bears for Americans a deep significance. We have already discovered that the doctrine of *laissez-faire*, since it has passed through the hands of Professor Cairnes, amounts to nothing more than a declaration in favor of the wisdom of conservatism. We may now perceive that the rule which the German investigators adopt is also a declaration in favor of conservatism. Each people has established its practical presumption in favor of the state of affairs with which it is familiar. In England, where the philosophy of individualism permeates all thought, the presumption is in favor of private enterprise; in Germany, where the state is the center of all interests, the presumption lies in the opposite direction. Yet the mental characteristic which leads to these diverse conclusions is the same for both peoples. Is it not, then, clear that the philosophers of both schools condemn by their example any blind subservience to what they teach? And is it not absurd for American economists to array themselves in opposing schools as advocates of what is English or what is German? I am not arguing for obstinacy but for independence. The American people certainly have much that is common to both of the great peoples mentioned, but they have also much that is peculiar

to themselves. Their history, though rooted in the past, is yet of their own making; their nationality is colored by the diverse sources from which their citizens are drawn; their physical surroundings have been such as to intensify a spirit of self-dependence; does it not then follow that they must build out of such material as they have at hand? Certainly no set of men should be so ready to maintain intellectual independence, in the domain of constructive economics, as they who, at the great universities of Germany, have learned how to read the true lessons from history.

It will be impossible to proceed farther without giving direct expression to my own opinions. Neither of the views respecting the relation of the state and industries which we have considered can be regarded as satisfactory, or as resting upon adequate views of the nature of society. There is no overpowering presumption in either direction, and to admit of one is to cover up the point at issue. It is true there is a sense in which the state stands opposed to the individual, but we cannot expect to discover a guiding principle for public control so long as our analysis proceeds upon such an hypothesis. The fundamental error of English political philosophy lies in regarding the state as a necessary evil; the fundamental error of German political philosophy lies in its conception of the state as an organism complete within itself. Neither the one nor the other of these views is correct. *Society* is the organic entity about which all our reasoning should center. Both state action and the industrial activity of individuals are functions of the complete social organism. The state is not made out of the chips and blocks left over after

framing industrial society, nor does industrial society serve its full purpose in furnishing a means of existence for the poor unfortunates who are thrust out of the civil or the military service. Society, as a living and growing organism, is the ultimate thing disclosed by an analysis of human relations; and because this is true it is not right to speak of a presumption in favor of individual initiative or of state control, as though these stood like contestants opposed to each other. It is not proper to consider individual activity as supplementary to state powers, or to look upon the functions of the state as supplementary to personal activity. It is futile to expect sound principles for the guidance of intricate legislation so long as we over-estimate either public or private duties: the true principle must recognize society as a unity, subject only to the laws of its own development.

PRINCIPLES THAT SHOULD CONTROL INDUSTRIAL LEGISLATION.

There are two classes of thinkers with whom I have not the fullest intellectual sympathy; the one comprises those who rest satisfied with criticism, the other those whose critical analysis leads only to exhortation. Though each is useful in its way, neither renders to society the highest service of which scholarship is capable. For the end of criticism is construction, and its service should be to point out the way in which men may avoid the recurrence of mistakes disclosed. Applying this thought to the subject in hand, it now becomes our difficult task to search for those principles to which industrial legislation should conform, for there can be no greater

misfortune than this, that legislation should proceed blindly, controlled only by what practical men call expediency.

Much of the confusion that now surrounds the question of the appropriate duties of government, so far as the people in this country are concerned, is due to the failure to distinguish between *laissez-faire* as a dogma and free competition as a principle. The former, as we have seen, is a rule or maxim intended for the guidance of public administration; the latter is a convenient expression for bringing to mind certain conditions of industrial society. Thus when one speaks of the benefits of free competition, one means the benefits conferred by industrial freedom. And when one argues for free competition, one is called upon to show that the best possible results may be expected for society, as a whole, and for each member of it, when labor is free and independent, when the right to acquire and enjoy property is guaranteed, when contracts are defended, and when every man is obliged to stand on his own legs, enjoying to the full the fruits of his own labor and suffering to the full the barren harvest of idleness. It seems that there should be no reasonable doubt respecting the benefits that must flow from such an organization of society, and I for one have no quarrel with those who urge its realization as a worthy object of endeavor. But I do take serious issue (and this is the important point to be observed), with those who hold that the rule of *laissez-faire* indicates the way by means of which such a state of affairs may be established and maintained. The claim that laborers should be free and independent is readily admitted, but at the same time it is denied

that the language of public law, which makes all men equal before it, is a guarantee of freedom and independence: the right to acquire property is heartily endorsed, but it is also urged that property should not be acquired in such a manner, or to such a degree, as to defeat the purpose for which the right was granted; the necessity of maintaining contracts is conceded, but it must not be forgotten that the liberty of contract is a mere corollary of personal liberty. It cannot then be said that they who deny the sufficiency of the dogma of *laissez-faire* do so because they fail to appreciate the advantages of competitive action. It is true that some are open to this charge, but, on the other hand, many who believe the theory of individualism no longer applicable to modern relations, are quite willing to recognize competition as a beneficent social principal. They do, however, say that the benefits of this principal can never be realized through the uncontrolled play of private interests, carried on in harmony with existing property right.

It is unfortunate, though it is a natural consequence of the proneness in human nature to establish parties, that discussion upon this question has led to the formation of opposing schools of thought. Individualists and socialists maintain extremes of opinion respecting the nature and working of competition.¹ The former hold it to be necessarily a benevolent principle; the latter regard it as inherently a malevolent principle. Individualists, therefore, would

¹There is little need of testimony to this statement respecting individualism, but the claims of socialism may not be as familiar to my readers. I know of no better characterization of socialism as a scheme of economic thought than may be found in the six proposi-

grant it the freest play, and on this account advocate *laissez-faire*; socialists would exclude it from the society which they propose to establish, at least as a directing and controlling agency, and to this end propose a socialistic state. Upon one point only do these leaders of opposing opinions agree, and that is in the opinion that the denial of one view involves the acceptance of the other. There is no peace for an economic mugwump.

Nevertheless I venture to suggest that the question here involved is not one of excluded middle. Competition is neither malevolent nor beneficent, but will work malevolence or beneficence according to the conditions under which it is permitted to act. If this very reasonable view of the case be admitted, it follows that we may escape the practical conclusions of both socialists and individualists; or at least, so far as we accept their proposals, we may rest our decisions upon some sound analysis of social relations. We may admit with Louis Blanc, that great evils fol-

tions upon which Louis Blanc based his system. I give them as summarized by Dr. Heinrich Contzen:

1. The deep and daily growing misery of the masses (*du peuple*) is the greatest misfortune.
2. The cause of the misery wherein the masses live is competition.
3. Competition is likewise for the property owners (*la bourgeoisie*) the cause of their ruin.
4. Government is the highest orderer of production and as such must be clothed with greater power.
5. The state as the greatest capitalist has this duty to perform, that through its competition private competition should be made to disappear. To this end national workshops must be established at the cost of the state.
6. Such wages must be paid as in every case to richly provide for the existence of the laborers.—(Geschichte der Socialen Frage von den ältesten Zeiten bis zur Gegenwart, von Dr. Heinrich Contzen. p. 128.)

low the unbridled passion of accumulation, and recognize with Adam Smith, that personal interest in work done is the life of healthy industry; yet at the same time we may deny that the state should crush out all private control in business, and refuse assent to the doctrine that police duties exhaust the proper functions of government.

This presentation of the problem suggests the general principle according to which the relation of governmental agency to industrial affairs should be adjusted. It should be the purpose of all laws, touching matters of business, to maintain the beneficent results of competitive action while guarding society from the evil consequences of unrestrained competition. This may seem a truism, but its statement is necessary as the starting point for constructive study. It is at least sufficiently distinct from either the English or the German rule, as above stated, to warrant the belief that it may serve as the basis of a wholly different system of thought. For, according to this view of the case, neither governmental activity nor private enterprise exists by suffrance. There is no presumption for or against either the one or the other in itself considered, for both are essential to the development of a highly organized society, and the purpose of constructive thought should be to maintain them in harmonious relations.

But what are the beneficial workings of competition? Modern industrial society is built upon four legal facts: Private property in land, private property in labor, private property in capital, and the right of contract for all alike. The development of these rights, which required centuries for its accomplishment, portrays the growth of individualism and the decay of com-

munalism; and no one who fully appreciates the opportunities thus offered, as compared with the opportunities offered by an industrial society based on slavery, or on undeveloped or general proprietary rights, can seriously advocate a return to the conditions of the past. The peculiar claims urged in favor of a society organized on the competitive basis are familiar to all. Perhaps the most important of these is that men are in this manner guaranteed full enjoyment in the fruits of their labor, and on this account will be jealous in its application. Competitive society also provides for ease of movement from one grade of labor to another, or from one business to another, and thus ensures elasticity in thought and expansion of purpose as the result of the manner in which motives are applied to individual conduct. Under such conditions, it is the future and not the past that claims the attention of men. It is hope and ambition, rather than fear and apprehension, that move the energies of men. We should not forget that the material progress of the nineteenth century is in large measure due to the mobility of action which the idea of equal rights before the law brought into modern life. It may, however, be remarked in passing that the energy displayed in modern society is due to the openness of opportunity in all forms of industry. Each competitor imagines himself the successful runner for the prize he seeks; but should the practical difficulties of attaining success ever come to be so great as to restrict the number of contestants, the healthful activity which now follows high anticipations would be replaced by the lethargy of hopelessness. It is a mistake to conclude that equal opportunities are

surely maintained by granting equality before the law.

Again, wherever the conditions for competitive action are maintained, society has a guarantee that goods will be produced at the lowest possible cost: for the hope of personal gain leads to the best disposal of labor, to invention, and to the adoption of the best machinery. Assuming the same premise, society has also a guarantee that the goods produced will be placed upon the market at fair prices. It is unnecessary to enter upon any explanation of the manner in which this guarantee works, for popular economic philosophy devotes much of its attention to an elaboration of the reasoning here suggested; and our only quarrel with popular economic philosophy is that it arrests its analysis of industrial relations after discovering the advantages which might accrue to society, could the conditions for competitive action be maintained. It refuses to inquire what is necessary on the part of the state to ensure the maintenance of such conditions, or to proceed in its study to the consideration of the evils that flow from individualism in industrial life. But assuming the dogma of *laissez-faire* to be the most practical method of establishing competitive action, it shuts itself up to a sort of fatalism and witnesses with a stolid countenance the fruitless efforts of men to realize a rational existence.

But what are the evils of unrestrained competition; or, more accurately stated, what are the pernicious results of the attempted realization of competitive action under the direction of the doctrine of *laissez-faire*? I cannot hope to present a complete answer to this question, but must rest content with certain

suggestions that may lead to a clear understanding of such rules for governmental action as will be proposed. The important evils of unrestrained competition are of three sorts.

First. The free play of individual interests tends to force the moral sentiment pervading any trade down to the level of that which characterizes the worst man who can maintain himself in it. So far as morals are concerned, it is the character of the worst men and not of the best men that gives color to business society.

Second. The application of the rule of non-interference renders it impossible for men to realize the benefits that arise, in certain lines of business, from organization in the form of a monopoly. The theory of *laissez-faire* sees clearly the beneficent principle in free competition, but fails wholly to recognize a beneficent principle in monopoly.

Third. The policy of restricting public powers within the narrowest possible limits tends to render government weak and inefficient, and a weak government placed in the midst of a society controlled by the commercial spirit will quickly become a corrupt government; this in its turn reacts upon commercial society by encouraging private corporations to adopt bold measures for gaining control of government machinery. Thus the doctrine of *laissez-faire* overreaches itself; for the application of the rule which it lays down will surely destroy that harmony between public and private duties essential to the best results in either domain of action.

Let us consider these suggestions in the order in which they have been presented:

The State may Determine the Plane of Competitive Action.

What is meant by saying that unguarded competition tends to lower the moral sense of a business community? This law—for I suppose in the ordinary acceptance of that term the statement here presented may be called a law of tendencies—is not of equal application to all forms of business. Whenever the personal element of a service comes prominently into view, and the character of the agent rather than the quality of goods is forced into prominence, probity has its market value and honesty may be the best policy. But in the commercial world as at present organized, where the producer and the consumer seldom come into personal contact, the moral arrangements followed in the process of production are not permitted a moment's thought. All that is considered by the purchaser is the quality and the price of the goods. Those that are cheap he will buy, those that are dear he will reject; and in this manner he encourages those methods of production that lead to cheapness.

There are of course exceptions to this rule. Some men, for example, will not wear "dollar-shirts," preferring to buy the material and see to it that living wages are paid in the making. That is, they declare a private boycott against the great establishments, because the shirts there made do not fit their consciences. An apparent exception also is found in the fact that, in almost any line of business, a few men are able to maintain themselves in the face of fierce competition by giving greater attention to the quality of goods than to the price at which they may be placed upon the market: for there is a lim-

ited number of purchasers who understand that quality is an element of cheapness. Under such conditions it is possible for the producer to incline to the leadings of his moral instincts in business affairs.

But these exceptions do not vitiate the rule laid down. There must be substantial uniformity in the methods of all producers who continue in competition with each other. Each man in the business must adopt those rules of management which lead to low prices, or he will be compelled to quit the business. And if this cheapness, the essential requisite of business success, be the result of harsh and inhuman measures, or if it lead to misrepresentation and dishonesty on the part of salesmen or manufacturers, the inevitable result must be that harshness and inhumanity will become the essential condition of success, and business men will be obliged to live a dual existence.

In his excellent work upon "The Philosophy of Wealth," Professor Clark calls attention to the fact that the "tribal conscience," which was sensitive to the finer qualities of human character, has given way to the "inter-tribal conscience," which tolerates mercantile contention and winks at the tricks of trade. In making use of such expressions he probably has reference to the singular fact that, while society existed in the tribal state, or was controlled by the governments of local trading guilds, competition was inoperative so far as the members of the same tribe or city were concerned; but in case of trade between members of different tribes, or in the established market-places where citizens of various towns came together, we find the higgling of the market so char-

acteristic of competitive transactions. At the present time, however, these local regulations have given way before the extension of the national idea, and, instead of the old mercantile code of local trade being maintained for all members of the same nation, even local trade has been brought under the direction of the rule which formerly applied only to inter-tribal commerce. Professor Clark portrays the moral effect of this transformation in the following language:

“The man of the present day is actuated now by one influence, now by the other, and has two distinct codes of outward conduct. Moral philosophy, indeed, teaches that his fundamental character is one and unchanging; but as there is one code of practical conduct for peace and another for war, so there is one code for the family, the social circle, and the church, and a different one for mercantile life. The man of business is constantly passing from the jurisdiction of one code to that of the other.

“It is a common remark, that business practices are not what they would be, and that a sensitive conscience must be left at home when its possessor goes to the office or the shop. We helplessly deprecate this fact; we lament the forms of business depravity that come to our notice, but attack them with little confidence. We are appalled by the great fact of moral dualism in which we live, and are inclined to resign ourselves to the necessity of a twofold life.”¹

The fact upon which we insist at this point is that an isolated man is powerless to stem the tide of prevalent custom, and that in many lines of business those men whose moral sensibilities are the most blunted, exercise an influence in determining prevalent custom altogether out of proportion to their importance as industrial agents. Suppose that of ten manufacturers nine have a keen appreciation of the evils that flow from protracted labor on the part of women and children; and, were it in their power, would gladly produce cottons without destroying family life, and without setting in motion those

¹The Philosophy of Wealth. J. B. Clark, A. M. pp. 156, 157.

forces that must ultimately result in race-deterioration. But the tenth man has no such apprehensions. The claims of family life, the rights of childhood, and the maintenance of social well-being are but words to him. He measures success wholly by the rate of profit and controls his business solely with a view to grand sales. If now the state stand as an unconcerned spectator, whose only duty is to put down a riot when a strike occurs (a duty which government in this country is giving up to private management), the nine men will be forced to conform to the methods adopted by the one. Their goods come into competition with his goods, and we who purchase do not inquire under what conditions they were manufactured. In this manner it is that men of the lowest character have it in their power to give the moral tone to the entire business community.

Mr. Pitt early recognized the undue importance of the reckless and the selfish in determining the plane of competitive action. "The time will come," said he, "when manufactures will have been so long established, and the operatives not having any other business to flee to, that it will be in the power of any one man in a town to reduce the wages, and all the other manufacturers must follow." And he added, though it is not of present pertinence to our argument: "If ever it does arrive at this pitch, Parliament, if it be not sitting, ought to be called together, and if it cannot redress the (your) grievances, its power is at an end."¹

The proprietor of a printing establishment in Vandewater street remarked to me not long ago that he

¹As quoted by Howell, *The Conflicts of Capital and Labour*. p. 114.

could point to the employers who were responsible for the harsh regulations and low wages under which the printers of the city of New York worked. "I am powerless," he added. "however much I might desire to manage my business on any other principle than that of getting the most out of the men for the least money." The business of manufacturing ready-made shirts, and in a large measure that of ready-made clothing, has fallen into the hands of disreputable men, for none others will follow the methods necessary to produce cheap goods. One of the most common complaints of business men is that they are obliged to conform to rules of conduct which they despise. It is a necessary result of a competitive society that the plane of business morals is lower than the moral character of the great majority of men who compose it.

But what, it may be asked, can the state do in the premises? The state has done much and can do more. That code of enactments known as "factory legislation" is addressed to just this evil of competitive society, and it only remains for us to formulate for this code an economic defense. The general rule laid down for the guidance of state interference in industries was, that society should be secured in the benefits while secured against the evils of competitive action. When the large body of competitors agree respecting some given method of procedure, but are powerless to follow it because a few men engaged in the same line of business refuse to conform to the proposed regulations, it becomes the province of the state to incorporate the wish of the majority in some practical law. In this manner there is established a legal plane of competition higher than that which

could be maintained in the absence of legal enactment. This is no curtailment of competitive action, but a determination of the manner in which it shall take place. If the law says that no child shall be employed in factories, the plane of competition is raised to the grade of adult labor. If married women are refused employment, the nature of competition is again changed, but competition is not restricted. Or, in the same manner, the law might establish the plane of competition to a normal day's labor for men. As the result of such legislation some of the evils of the present system would disappear, while all the benefits of individual action would yet be conserved to society.

This, then, is one defense of interference on the part of the state. It lies within its proper functions to determine the character of such competitive action as shall take place. There must be conformity of action between competitors, and the only question is whether the best or the worst men shall set the fashion. One cannot be neutral with regard to this question. No vote at all is a negative vote; and a vote in the negative is as positive in its results as one in the affirmative. Should the state insist on following the rule of non-interference, society cannot hope to adjust its productive processes to the best possible form of organization.

It may be pertinent in this connection to call attention to a thought, which, it is believed, has not received adequate attention. The opinion is frequently expressed that all the evils of modern society are traceable to the natural depravity of the individual man, and, under the direction of such an explanation, they who wish well to society expend their

energies in exhorting individuals to reform their lives. This is especially the high duty of religious teachers. But have these teachers ever stopped to inquire why their persuasive eloquence has thus far met with meagre success in the reformation of society? Do they really see that, in a society where the code of business ethics conforms to the law "thou shalt love thyself better than thy neighbor," none but industrial hermits can adhere to the law "thou shalt love thy neighbor as thyself." These are certainly contradictory rules of conduct, and, so far as I am aware, no theory has ever sought to reconcile them except the one which claims that, when a man looks out for number one he looks out for his neighbor also. But our analysis has shown that the existence of such a relation is a pure assumption of optimistic natures. When Professor Cairnes demolished the scientific pretensions of *laissez-faire*, he took from us all hope of reconciling the Christian rule of ethics with the prevalent practice of Christian peoples.¹ Our religious teachers, whose analysis of industrial relations stops short of portraying the moral deterioration effected by unbri-dled competition, mean, if they mean anything, that the men whom they influence should renounce the world of business ambitions. In this fact do we find

¹I said above that the strength of the dogma of *laissez-faire* was the simplicity of its statement. It was also suggested in another place that the fact that it was conceived to rest upon some natural law of human relations gave it power. Another source of its influence over the minds of men is found in the fact disclosed in the text. As a philosophy of human conduct it was charmingly soothing, for, by identifying personal and social interests, it harmonized the Christian rule of conduct with the egoistic motives of business life.

the explanation of the curious paradox, that the more effective the persuasion of religious teachers the more rapid will be the deterioration of business society: for, since the result of such persuasion must in large measure be the renunciation by men of delicate consciences of the great business opportunities, society will tend to take upon itself the moral tone of the more unscrupulous. There is great danger, while dwelling with such emphasis upon the problem of individual life, of forgetting its complement, the problem of social life.

They who recognize the pertinency of such a suggestion may find it worth their while to consider again the view of state action above presented. The state, it was claimed, can properly determine the conditions under which competition shall take place, and in this manner permit society to realize the best rather than the worst of the possible lines of actions open to it. We have all of us, doubtless, heard the claim that the state is a moral agency; that it is imposed with moral duties. For a number of years after this phrase came to my notice, it presented to my mind no distinct meaning. It seemed to me to cover the philanthropic purpose of shallow intellects, and to be most frequently used by men who knew not the way of guile nor anything else for certain. But properly understood this phrase contains a deep truth of social philosophy. It does not mean that the law is a schoolmaster coercing men to be good, nor that it is the depository of a social ideal to be admired; but on the contrary, it means that the law is an agency for the realization of the higher ideals of men by guarding them from that competition which would otherwise force them to a lower plane.

of action, or else force them out of business. In performing such a duty the state performs a moral function, for it regulates competition to the demands of the social conscience. Under the guiding influence of such a thought the immediate interests of the individual may be made to coincide, in some degree, with the fundamental interests of society, and thus, by disregarding the dogma of *laissez-faire*, the fundamental purpose of those formulating the doctrine is in part realized. Surely religious teachers should be interested in the opportunity which such a thought opens to men.

The State may Realize for Society the Benefits of Monopoly.

Let us now turn to consider the second point introduced by the enumeration of the evils that flow from unrestricted competition. The application of the rule of non-interference, it was said, rendered it impossible for society to realize for its members the benefits that arise, in certain lines of business, from organizations in the form of monopoly. It may seem at first strange to speak of a beneficent principle in connection with monopolies, for we are accustomed to associate them with all that is odious, grasping, and tyrannous. The existence of monopolies in favor of individuals has always been regarded as an infringement of personal rights, and history declares that free peoples have always revolted against the assumption of peculiar privileges by any class of men. Much of that which we have come to admire in modern life, and to rely upon in modern character, was developed in those struggles of the

past to overthrow exclusive privileges, and it is on this account easy to understand the feeling of jealous distrust with which private monopolies are universally regarded. For whatever form they may assume, the results which flow from them are always in the same direction. The energies of a growing and expanding society are diverted to the service of a favored class; and this, when it becomes generally adparent, gives rise to an unhealthy discontent which checks further expansion.

But what is an industrial monopoly? An industrial monopoly may be defined as a business superior to the regulating control of competition. The peculiar privileges of the past, so far as they were of an industrial character, usually rested on royal grants or charters; but those of which complaint is now heard, spring from the conditions of modern business activity, or from the peculiar nature of certain lines of business. The distrust with which monopolies are universally regarded arises from the fact that the public is deprived of its ordinary guarantee of fair treatment, so far as it must have dealings with them. But the important thing for us to notice is, that men do not so much complain of the existence of monopolies, for they recognize the existence as inevitable, but that the peculiar privileges and unusual powers which they bestow are perverted from their high purpose to serve private ends. This fact is well illustrated in the development of the medieval craft-guilds. So long as there were no arbitrary conditions imposed for gaining membership in these guilds they were regarded with general favor; it was only after they had grown into close corporations, and when their members began to cor-

ruptly use the power entrusted to them for personal ends, that they were observed to obstruct the advance of industrial progress.

The most simple form of a monopoly is a business under the direction of a single mind, and, from the standpoint of administration, there is much to be said in favor of that harmony of control and unity of direction which such a management renders possible. Provided a business admits of something like military organization; provided the details of its management have been well worked out; provided its extension to meet new demands may be accomplished by merely duplicating what already exists; and provided the social want which it supplies is wide-spread and constant, exclusiveness in management must lead to efficiency of management, if only men of adequate ability may be found to assume authority. Under such conditions a service may be rendered at less cost to the public than if the agents of the monopoly were broken up into competing groups. There are several reasons why this is true. The fact of an assured demand for services rendered admits of the closest calculations; the extent of the demand also allows of a minute application of the principle of division of labor; the absence of any rivalry between competing concerns precludes the necessity of expending more capital than is required for an economical performance of the service; and, what is perhaps of as much importance as any other consideration, there is no temptation to adopt speculative methods of management which lead to the covering of unnecessary losses of one period by the arbitrarily high profits of another. Thus the *possibility* of cheapness and efficiency seems to lie in the very nature of a

monopoly. This is the beneficent principle of which mention was made, and the practical question is how to realize the benefits of this principle for society.

The relations here set forth will present themselves more clearly to our minds if we throw into comparison the rule of public and the rule of private financing. A private business is managed to secure a profit, and, other things being equal, the higher the price secured for any service rendered, the higher will be the profit. The rule of private financing, therefore, is to maintain the price of goods or services at the highest price which has no tendency to curtail profitable business. The price of goods in this case will equal the cost of production, plus the profit to the undertaker, and the only guarantee against exorbitant rates lies in the fact that purchasers are free to choose from whom they will buy.

The rule of public financing, on the other hand, conforms to an altogether different principle. It is the purpose of government to render services at the lowest price consistent with efficient service. Price equals cost. This is true, because the state, being the manager of the business, has no motive in acquiring riches. The officers of the state receive their salaries which, roughly speaking, may be said to correspond to the profit secured by the managers of private enterprises. The guarantee that price will not be more than cost of production, including salaries of officers, lies in the publicity of accounts, and in all that goes to make up efficient service. In theory, therefore, we should expect parallel results from a monopoly under control of the state and from a business privately organized directed by the prin-

ciple of free competition. For employment of corresponding grades, the salary of an official ought to be equal to the ordinary income of a business manager, and the guarantee of competition ought to work like that of official responsibility; but, unfortunately for the theory, industries vary in the demands which they make upon personal control, and neither guarantee is observed to be unrestrained in its action.¹

I do not wish to be drawn from the main line of my argument to consider which form of organization is the most applicable to all industries; for this, I apprehend, is not the question at issue. I am arguing neither for nor against state socialism. The position here assumed is, that the doctrine of *laissez-faire* does not permit society to realize in any adequate degree the benefits of organization in the form of monopoly. This is true, for several reasons, but

¹It is a significant fact for the student of social relations, that the structure of society is perfectly reflected in the classification of social studies. In France and Germany, for example, where the theory of *laissez-faire* has been less perfectly realized in internal affairs than in England and the United States, we find the science of finance pretty well differentiated from the science of political economy. This is exemplified in the existence of so clear and comprehensive a work upon finance as that of M. Leroy-Beaulieu, or in the monumental works of Wagner and the less pretentious treatise of Roscher. English and American writers, on the other hand, have, for the most part, followed the method of treatment laid down by Mr. Mill. He considers social relations under the name of political economy, and then, under the title "Of the Influence of Government," brings to notice a few of the questions pertaining to finance. This superficial treatment of so important a subject can only be explained by the theory of the relation of public to private duties which Mr. Mill maintained. When government is regarded as a necessary evil, and its activity as an encroachment upon the reserved rights of individuals, it is not natural that the science of finance, which treats of the material wants of the state and the means of their supply, should embrace more than a simple treat-

especially because there are many industries which, from their nature, are monopolies, and cannot, therefore, be safely consigned to the guidance of the rule of private financiering. It is certainly absurd to say that a business superior to the regulating influence of competition, conducted according to the principle that the highest possible price should be demanded for services rendered, can be managed in a spirit of fairness to the public. Such a business ought to be made to conform to the rule of public financiering, but the common prejudice aroused by the teachings of *laissez-faire* renders this difficult of accomplishment. "In some countries," says Mr. Mill, "the desire of the people is for not being tyrannized over, but in others it is for an equal chance to everybody to tyrannize." I am making a use of this profound

ment of the theory of taxation. But among peoples who have never felt in its extreme the philosophy of individualism in industries, but who rather have sought to correlate the interests of all in the higher interests of the state, it is a necessary consequence that the science of finance should extend until it comes to be, in many particulars, the science of public administration. I have sought in the text to bring into contrast the two principles, that of private financiering which controls in political economy, and that of public financiering which controls in the administration of governmental affairs, and I have tried also to suggest that the true society can only be expected when these two complementary principles are brought into harmonious adjustment. One of the chief difficulties under which we in this country suffer, in our endeavors to solve the problem of monopolies, arises from the fact that our publicists and statesmen proceed in profound ignorance of the meaning and purpose of the science of finance. They neither understand the rules upon which public administration should proceed, nor do they perceive how a right use of the principle of public financiering may be made to serve as a check on the workings of the principle of private financiering so far as they are pernicious. Among the evidences that the doctrine of *laissez-faire* is loosening its hold upon the minds of men, will be a more extensive demand for works upon finance and administration.

truth different from that which its author intended, when I say, that the strength of the prejudice in favor of non-interference in commercial affairs is rooted in the degrading ambition of the mercantile classes which this truth portrays. So long as public opinion holds to the presumption in favor of private management, and, as a natural consequence, refuses to enter upon a candid analysis of the nature of industries for the purpose of discovering which of them may be safely consigned to the guidance of competition, large numbers of private monopolies will be maintained. If men persist in thinking themselves free because the law grants them an equal chance with their fellow-men to become monopolists, the great majority will pass their lives in that state which even conservative writers call commercial dependence. Bastiat is right when he speaks of the interest of the consumer as identical with the "social interest," in so far as this question of monopolies is concerned ; for it is only when we regard the problem from the point of view attained by considering the collective interest of society, that we can secure a just appreciation of the relation of government to business activity.

The practical conclusion to which this analysis leads is that society should be guaranteed against the oppression of exclusive privileges administered for personal profit, while at the same time it should be secured such advantages as flow from concentrated organization. I do not at present undertake to say whether this should be done through carefully guarded franchises, through official commissions, through competition of the state with private industries, or through direct governmental management ;

but in some manner this purpose should be accomplished. Such monopolies as exist should rest on law and be established in the interests of the public; a well-organized society will include no extra-legal monopolies of any sort.

But the difficulty of the rule lies in its application. Is there any principle according to which industries may be classified so that the statesman can easily determine what lines of business should be brought under the rule of public financing? The advocates of *laissez-faire* would say that the government should wait until it was observed that society suffers some actual evil before calling into exercise the sovereign power entrusted to it. Even the most liberal of them go no farther than to admit that the presumption in favor of non-interference may be overcome by the pressure of facts. But if the view we have endeavored to present be accepted, this claim is inadequate to realize a harmonious social organization. For, in the first place, it deliberately chooses that society suffer an evil until it become unbearable before it admits of state action; and, in the second place, it incurs the risk of allowing monopolies to grow until they become stronger than the state. On the other hand, if there be any virtue in the scientific analysis of industrial relations, we should be able to determine, with some degree of accuracy, under what conditions the best results may be expected from an application of the rule of private financing, and under what conditions the rule of public financing will the best serve the rational ends of society, and I shall endeavor to suggest the line of thought along which such an analysis should proceed.

All industries, as it appears to me, fall into three classes, according to the relation that exists between the increment of product which results from a given increment of capital or labor. These may be termed industries of constant returns, industries of diminishing returns, and industries of increasing returns. The first two classes of industries are adequately controlled by competitive action; the third class, on the other hand, requires the superior control of state power. Let us consider these a little more in detail:

Industries of the first class.—Industries of the first class are such as demand a proportional increase in capital and labor to secure a given increase in product. That is to say, if $2x$ capital and labor result in $2y$ product, the application of $3x$ capital and labor would gain $3y$ product. The increment of return is equal to the increment of capital. All those businesses in which success depends largely on attention to detail, and where the personal element of the laborer is brought prominently into view, fall under this class. For example, the retail business of merchants is subject to the rule here stated. It is not necessary for public officials to inquire if sugar is sold as low as fair dealings demand, for this business is one that admits easily of multiplication and consequently invites competition. The step from a clerkship in a grocery to the proprietorship of a new establishment is not a difficult one to take, and for this reason we are assured that the profit of an ordinary grocer will not greatly exceed the salary which he pays his head clerk. There can, therefore, be no motive for endeavoring to apply the rule of public financing to businesses of this sort.

There are certain facts of common observation which seem to contradict the conclusion thus stated. All grocers do not secure the same income, and there are many instances of princely fortunes accumulated in trade. It is also true that of two manufacturing establishments, whose facilities for cheap production are apparently equal, the one will pay higher profits than the other. Yet such facts, properly understood, do not prove that the business in which they occur are securing monopoly prices for services rendered, but rather that they are under a management superior to the management of those industries with which they come into competition. Prices are determined by the ordinary or average cost of production, but if by superior business talent the cost of producing goods in a few establishments is less than the average, or if superior organization permits more work to be done in one establishment than in another, there is in this manner created an unusual margin between cost and price which gives rise to unusual profits. Or to state this distinction in another way: a fortune built out of a monopoly is made up from the excess of the market price over the necessary cost of production, while a fortune created by business talent springs from depressing the cost of rendering a service below the average necessary price. This distinction has not been introduced for the purpose of discussing the propriety of permitting men to enjoy the rental of their business talents, but rather to provide against a criticism sure to arise. While classifying industries according to quickness with which they respond to the influence of competition, we must not complicate our task with results traceable to the varying abilities of those who manage them. We

may then repeat: Industries in which increment of product demands a corresponding increment of capital call for no regulation by law, farther than may seem necessary to determine the conditions under which competition may take place.¹ (See note on page 59.)

Industries of the second class.—The same conclusion applies to the second class of industries, where a given increment of product calls for a proportionally greater increment of capital and labor. Assuming the same relation to exist in an established business as before, if $2x$ capital is required for $2y$ product, an additional x of capital will not produce an additional y of product, but something less. That is to say, $3x$ capital may produce but $2\frac{1}{4}y$ product. Industries of this sort are said to be subject to the law of diminishing returns, and it calls for no abstruse argument to recognize that society is quite safe in submitting such lines of industry to the control of competition. The rate of product in the new industry is greater than that in the one that is farther developed, and for this reason we may rely upon individual interest to maintain a large number of separate producers. The agricultural industry is usually cited as an illustration to which the principle of diminishing returns may be said to apply, and, if we leave out of view the element of accruing rent, the conclusion which we have suggested may be applied in its most extreme form to the business of farming. There is no call for government farming.

It is believed that the analysis, by which these two classes of industries have been disclosed, renders a service of no little importance to English

economy, in that it puts a definite meaning into some of its loose expressions. We are doubtless familiar with the common argument in favor of private management. As stated by Mr. Mill, it is as follows:

“The great majority of things,” he says, “are worse done by the intervention of government, than the individuals most interested in the matter would do them, or cause them to be done, if left to themselves. The grounds of this truth are expressed with tolerable exactness in the popular dictum, that people understand their own business and their own interests better, and care for them more, than the government does, or can be expected to do. . . . All the facilities which a government enjoys of access to information; all the means which it possesses of remunerating, and therefore of commanding, the best available talent in the market—are not an equivalent for the one great disadvantage of an inferior interest in the result.”¹

It will be observed that this reasoning is but the emphatic expression of the truism that things are the best done when done by men personally interested in the doing; it is not, however, satisfactory, for it is not final. Of what use is it to say that “the great majority of things” should be done by the individual, unless we can establish a clear line of exceptions to the rule laid down. It is otherwise but a maxim for the guidance of children, and a curious exemplification of a paternal philosophy. But the foregoing analysis supplies this deficiency. It puts a definite meaning into the phrase, “the great majority of things,” and shows this loose classification to include such industries only as are subject to the law of constant and diminishing returns. It is true that our study regards industrial affairs from a different point

¹Principles of Political Economy, Book V, ch. IX, §5.

(This quotation presents a good illustration of *a priori* reasoning, for it leads to classification on the basis of exceptions to assumed premises, rather than as the result of direct analysis.)

of view from that of the English economists. They consider all things from the stand-point of intense production, we from the stand-point of economic distribution. But our analysis, although it has primary reference to the conditions by which the public is guaranteed against monopoly prices, serves equally well in designating those businesses in which competition will secure careful management. This conclusion follows necessarily from the fact that *the struggle for superior success in these businesses is a struggle to depress the cost of rendering services rather than to raise the prices of services rendered.*

Industries of the third class.—The peculiarity of those industries belonging to the third class, which we now come to consider, lies in the fact that they conform to the law of increasing, rather than to the law of constant or decreasing returns. The increment of product from an expanding enterprise is greater than the increment of capital and labor required to secure its expansion. Adopting the algebraic formula as before, if $2x$ capital give $2y$ product, an economic application of $3x$ capital will give more than $3y$ product. Mr. Mill recognizes the relation of product to labor here pointed out, and, erroneously as it appears to me, states it as a principle of general application. “As a general rule,” he says, “the expenses of a business do not increase proportionally to the quantity of business.”¹ But, without considering this point, the important thought in this con-

¹I do not mean to say that the fact to which Mr. Mill here calls attention does not exist, but that he fails to observe its true explanation. Beyond a certain point which is quickly reached, extension in those lines of business which feel the influence of competitive action is due to superior talent for organization in him

nection is, that where the law of increasing returns works with any degree of intensity, the principle of free competition is powerless to exercise a healthy regulating influence. This is true, because it is easier for an established business to extend its facilities for satisfactorily meeting a new demand than for a new industry to spring into competitive existence. If this analysis of industries be accepted as correct, there can be no question as to the line which marks the duties of the state. The control of the state over industries should be co-extensive with the application of the law of increasing returns in industries.

In this matter, also, our views coincide with what seems to be the natural conclusions from the premises of English economy. Individual management is conceded to be better than state management, where success depends on the margin of profit which emerges from a careful attention to details; but, on the other hand, if success depends on the mass of business done, as must be the case in all industries subject to the law of increasing returns, the pertinency of the argument in favor of individual management loses much of its force. And more than this may be justly claimed. Industries of the third class usually exist in the form of corporations, and, so far as this is true, the argument in favor of individual management is by no means conclusive in all cases. For, in the first place, the stockholders are more frequently interested in the manipulation of

who controls it, and not to growth in demand. The margin of profit, therefore, which emerges from the curtailment of the expense account, as compared with business done, is properly chargeable to *rental* upon the business talent put into the management of the business.—*Cf. ante*, p. 57.

stock than in the management of the details of the business; and, in the second place, the responsibility and care for the detailed management of great concerns must of necessity be assigned to superintendents and agents. It does not present the true state of affairs to say that the management of a corporation will be superior to that of the government, because the men who do the work are personally interested in what they do. The accurate comparison lies between two forms of corporate management, with varying rules for appointment and election, and not between the direct control of owners and the intermediate control of agents. But let us illustrate more fully what is meant by the law of increasing returns.

The railroad business may be cited as a good illustration of this third class of industries. When a railroad is first built through a thinly settled country, it is the problem of the engineer to put the enterprise into running order at the least possible outlay of money. The survey avoids cuts and bridges even at the expense of distance; the rails are light and the rolling stock not the best. The cost of plant is necessarily great in proportion to the business that may be immediately expected. But the development of the country soon taxes the facilities of the road to its utmost, and a new road must be built, or the capacity of the old one extended through the application of fresh capital. It is not difficult to decide which of these methods will be adopted. The capacity of the old road may be extended at a cost comparatively less than would be required by the building of a new road; and, so decided are the advantages of an established business over one struggling

into existence, that it is fair to regard the old road as practically free, for a long time at least, from the competitive interference of new capital.

It may be regarded as a little rash to bring up, by way of illustration, an industry about which there is so much discussion. Many writers, who look at the question rather as railroad lawyers than as students of social organization, maintain that the business of inland transportation is subject to the regulative influence of competitive action; and this they endeavor to prove by calling attention to the fall in through freights. Mr. Edward Atkinson, for example, seems to think the last word on the subject to have been said when he calls attention to the fact that a laborer in the city of New York can afford to eat bread from wheat grown in Dakota.

Out of deference to my readers, however, I will pass this discussion with the suggestion that it is an error to judge of the efficacy of competition in the railroad industry, solely on the basis of freight schedules. There are other tests equally as clear and much more simple in their application. In any business subject to competition, a new enterprise of the same sort as one already established, and bidding for the same trade, ought to spring up in the ordinary course of industrial expansion, and not be delayed until the hope of enormous speculative profits shall induce to such an undertaking. Or, to state the point specifically, if it be true that competition rules in the railroad business, the chief purpose of building new lines within the territory of an established line, should not be to make money by selling out to the stockholders of the line already doing the business. There can be no money in such a speculation unless

the net receipts of the old road are far in excess of the normal return upon the necessary cost of its plant. For, as has been pointed out, were it the increased traffic which suggested the necessity of increased facilities, these could be more economically supplied by extending the capacity of the established line. It is because certain corporations are gorged with profit that they may be successfully bled by competing concerns of mushroom growth; and it thus appears that the very fact so frequently cited by corporation lawyers as proof of the efficacy of competition is evidence of the inability of this principle to secure fair dealings to the public.

Or again, our comparison of the rule of public and of private financiering leads to the conclusion that, when the guarantees upon which each respectively rests are unimpeded, parallel results may be expected in all forms of industry. From this it follows that personal income from personal services should be about the same for all businesses of the same grade. But compare the salaries of public officials with railroad officials: or the salaries of railroad officials who are "let in on the ground floor," with those of employés whose duties are quite as important for the proper management of the business, but of a more perfunctory character. Or consider the salaries that men pay themselves for rendering that service so important to society of manipulating stock: or again, the large amounts gotten out of the earnings of the roads in the form of lawyers' fees, arbitrators' fees and the like, before any dividends are declared. Profit is what a man pays to himself when he employs himself, and where competition works its normal results no man can pay to himself very much more than he

will be obliged to pay to other men for services of the same grade. I will not call this excess of self-payment evidence of corruption, as would be done if a man were in the employ of the government. for the law has nothing to urge against it; I only say that competition does not regulate those businesses where great discrepancies of personal income are permanently maintained among men of equal talent.

There are many other lines of business which conform to the principle of increasing returns, and for that reason come under the rule of centralized control. Such businesses are by nature monopolies. We certainly deceive ourselves in believing that competition can secure for the public fair treatment in such cases, or that laws compelling competition can ever be enforced. If it is for the interest of men to combine no law can make them compete. For all industries, therefore, which conform to the principle of increasing returns, the only question at issue is, whether society shall support an irresponsible, extra-legal monopoly, or a monopoly established by law and managed in the interest of the public. In this latter way may the benefits of organization in the form of monopoly be secured to the people, and in no other. The great argument against public monopolies is that government is inefficient and corrupt, and this brings us to a consideration of the third class of the evils which result from the theory of non-interference as maintained in modern society.

*Social Harmony may be Restored by Extending the
Duties of the State.*

As the third class of evils attending the attempted realization of the doctrine of *laissez-faire*, may be

mentioned the injury worked to establish government. The policy of restricting public powers within the narrowest possible limit tends to weaken government and render it inefficient; this leads to corruption on the part of public officials, which, in its turn, invites to yet greater corruption in private practices. Excluding for the present Federal administration, no one will deny the inefficiency of the government of our states, while that of our municipalities is generally regarded as a dead failure. This fact is urged by the advocates of *laissez-faire* as the strongest argument in favor of their doctrine. See, they say, what a weak and halting thing this government is; it cannot do well what now is in its hands, how absurd to extend the range of its activity! There seems to be sound sense in this statement; and yet, notwithstanding its apparent reasonableness, it is believed to rest upon superficial reasoning, for it commits the grave error of mistaking a result for a cause. I would not go so far as to say that the statement would be wholly true if turned end for end, but there is truth in the charge that the inefficiency of local government is in large measure traceable to the endeavor to realize the *nolle tangere* policy among a people whose energies are directed by the commercial spirit.

The advocates of non-interference have treated government as the old physicians were accustomed to treat their patients. Was a man hot he was bled; was he cold he was bled; was he faint he was bled; was he flushed he was bled; until fortunately for him he passed beyond the reach of leech and lance. This has been, figuratively speaking, the form of treatment adopted by the people of the United States for

their local governments, and it has worked its natural result of feebleness and disintegration.

It is quite possible that some of my readers will protest against such a presentation of the case, resting their criticism upon the well-known tendency towards an increase in legislation in these latter days. This is what Mr. Spencer complains of, and it is also the occasion of that remark, so often heard, that sessions of legislatures are far too frequent. But there are two thoughts which suggest themselves in reply to such a criticism.

Firstly: The multiplication of laws, so far from being out of harmony with the theory of individualism as understood by democratic peoples, is a natural consequence of its general acceptance. A philosophy of social relations, like that of *laissez-faire*, which tends to efface the sharp distinction between public and private interests, must inevitably result in an extension of pernicious legislation; for, under the direction of such a philosophy, men feel themselves warranted in using public machinery for private ends. This conclusion is fully sustained by considering the nature of the bills which gain the approval of our modern law-making bodies. The larger number of these are bills urged and passed for private ends. It is not claimed that such a result is chargeable to corruption, (a moderate amount of which must always be allowed for in reasoning upon public affairs), nor does it necessarily show that the interests of the public are consciously overlooked by their appointed guardians; but this fact is believed to be tenable evidence that the premises of individualism have gained so firm a hold upon the common mind that legislators are prone to identify the interests of the public with those of individuals.

Secondly: It is believed that the above criticism mistakes the true center of public power. The importance of government, or the extent of the functions assigned to it, is not measured by the amount of legislation which its law-making bodies turn off from year to year, but rather by the nature of the administrative duties imposed upon it, or by the extent of the powers assigned to its courts. Indeed, the stronger the executive and judicial departments of a government, the less opportunity will there be for particular legislation, and the more likely will it be that such laws as are passed will conform to the just requirements of general laws. It is especially the administrative functions of government that the doctrine of *laissez-faire* attacks; and the strength of the attack lies in this, that individuals desire the opportunity of performing services of "collective interest" under the ordinary rule for private financiering. It must, then, be admitted that the above criticism does not touch the point. The increased legislation which we all deplore does not prove that *government* is growing strong and extending its range of duties; it is rather the evidence of increasing weakness, for it shows that government is incapable of adequately defending the public against the encroachment of individuals.

The constitutional history of the various states of the Union, so far as it pertains to the legal restrictions imposed upon their administrative powers, bears directly upon the point under consideration. I cannot, of course, present even the outline of this history, but there are two facts well worth a moment's notice. The contemporaneous growth of the power of corporations, on the one hand, and of municipal

corruption, on the other, bears for us a deep significance. The rise of corporations into such power that they menace the stability of society, by controlling in their favor legislation, dates from the time when the states were deprived of all direct control over inland transportation. It will be remembered that between the years of 1830 and 1845 it was the accepted policy in this country for the states to undertake the building of railroads and canals. The Board of Internal Improvements was a familiar figure in local politics, and the business intrusted to it was as important as any that claimed public attention. For quite a number of reasons which might be mentioned this industrial experiment of the states ended disastrously, and left the local governments involved in debt; and it was the reaction in public sentiment occasioned by the taxes imposed to meet public obligations which led the people to so amend the constitutions that the states could never again undertake industrial duties.

The states being thus forced into the background, the way was left clear for the development of private enterprise and corporate management. But it was a mistake to suppose that private capital was adequate to meet the needs of a growing country. The two hundred and fifteen millions of acres of public lands granted by the Federal government to these corporations; the one hundred and eighty-five millions of municipal bonds issued for the building of railroads; the many instances of local taxes paid to construction companies; all testify to the inadequacy of the theory adopted. It is no occasion for surprise that legislation for private ends greatly increased.

But the spirit thus engendered did not rest sat-

ified with placing restriction upon the industrial powers of the states, in order to make room for private enterprise in the building of railroads and canals. In all matters where any possible question arose between government and corporations, the advocates of governmental control were obliged to prove their case. At the present time the water-works in many of our towns are managed by private companies. It is the exception for gas to be supplied through public works, while there is no city, so far as I am aware, that maintains control over its street railways. And in perfect harmony with this whole line of policy is the morcelization of government among separate and independent boards, rather than the concentration of power in the hands of responsible officials in such a manner as to make it worth their while to attend to business. Under the sway of this policy, municipal government has become corrupt, while in many cases corporations have passed the bounds of all decency. These two tendencies have developed contemporaneously, and the question is whether there is any casual relation between them.

As I view the matter, there is certainly a close connection between the rise of the menacing power of corporations and the rise of municipal corruption. They are both an inevitable result of the too great confidence that has been placed in the regulative potency of competition, on the one hand, and of the too great suspicion with which governmental action is viewed, on the other. It is impossible, as society is at present organized, properly to correlate public and private duties. The motives leading men in one direction are overpoweringly strong when compared with the motives leading in the other direction.

And, under such circumstances, it is futile to expect that either domain of activity will exercise a healthful regulating influence upon the other.

The basis of this distinction has been already suggested.¹ We have said that society, being the fundamental fact disclosed by an analysis of human relations, confines within itself all individual growth and action. The activity which it displays is either public or private; that is to say, the activity of the state embracing all governmental functions, or that of individuals or corporations which is undertaken for private ends. But the important point that should be noticed in this connection is, that these departments of social activity are constantly acting and reacting each upon the other. The line which separates them is clearly defined so far as the principles are concerned to which each must conform, for the one is subject to the rule of public and the other to the rule of private financiering; but the growth of society demands continuous modification in the assignment of specific functions. Recognizing then the mutual relations that exist between public and private duties, it is easy to understand why failure to achieve the best results in one department of activity must injuriously affect the other; and the pertinent question for one who would direct by his thought the development of society is, under what

¹It may be right to say that, for a few pages following, this essay quotes from a somewhat comprehensive study upon Public Debts, about to appear from the press of Messrs. Appleton & Co., of New York City. My apology for thus making double one of the same manuscript is, that the address of which this monograph is an expansion was not intended for wide circulation; but, having attracted some attention in its original form, it seems a little pedantic to now change the wording, merely to avoid formal repetition.

conditions may the best results be expected from both departments of activity?

This question has already been answered. The best results may be expected when the duties assigned to public officials, and the functions performed by private individuals, are so correlated that the inducements offered are of about the same strength in both domains of activity. It is of course necessary, in applying this rule, to take in consideration other than merely pecuniary motives by which men are led to act. Considerations of social distinction, the desire to exercise such powers as one may possess, the pleasure of filling well a responsible position, indeed all the varied demands of human nature must be admitted into the account. If the importance of the state is so emphasized, and the allurements in the form of social position or emoluments of office are so strong, that the best talent of the people is drawn into the public service, a powerful and efficient government will probably be established, but a very bad society. It is believed that Prussia is now suffering from the dearth of talent and vigor in common business enterprises, and that she must continue to suffer in this manner until the state relaxes its hold upon the brilliant and talented of her youth. A German sewing machine is a very bungling affair, made after the abandoned models of American patterns; but German cities are well governed.

In our own country, on the other hand, one observes that society has developed in the opposite direction. The great prizes here offered are in the line of individual initiative. Our civil service is so poor that an official has no social position, while a business man who accumulates money is generally re-

garded with deference. The salary paid by the state is nothing when compared with what men of ordinary talent may secure, either as profit if engaged in business on their own account, or as salary if working for a private employer. It is, therefore, no occasion for surprise to learn that in this country we have very perfect sewing machines, but poorly administered cities.

One cannot fully appreciate this view of the case without calling to mind the possibilities of acquiring wealth in a rapidly developing industrial society. The atmosphere of such a society is intensely commercial, and not only do men of ability and energy refuse to consider a public position as desirable for themselves, but they regard with supercilious condescension one who is willing to assume public office in a municipality. And it may be added in this connection, as bearing on the question of municipal corruption, that the moral judgments of a public officer are very much like those of his neighbors who elect him, and the sentiments which control in the transaction of their daily business will probably give color to his administration. But the ordinary business life of the nineteenth century is such as to render men familiar with methods of speculation, and to conform their ethical principles to the law of supply and demand. The spirit of speculation partakes in character of the spirit of gambling. It judges all businesses undertaken on the basis of their pecuniary success, and has little care for the equivalent given for what is gained. A fine sense of what is just cannot exist where it prevails, nor can a delicate appreciation of what is honest be long retained by business men.

Suppose now, that a man of good intentions come into office in a community breathing the atmosphere of commercial speculation (let us say the office of Mayor in his town or Governor in his state), what does he see upon looking into the society whose welfare is placed in his hands? He sees it to be no uncommon thing, where contracts are uncontrolled, and where the rule of individual ownership is indiscriminately applied to all of the agencies of production, that fortunes are established in the hands of men and families having no peculiar right to them. Men who are lucky in owning real estate that other men want; men whose mines happen to yield purer copper than other mines worked; men with timber lands, salt wells, and other gratuitous products of nature that come into demand as population increases; all these increase their pecuniary importance out of proportion to their effectiveness as producers of wealth. He sees also, that many businesses which, from their very nature, must be carried on as monopolies, are given over to private control, that the principle of private financing is applied to them with all its vigor, and that in this manner large fortunes are accumulated and large power over men acquired, exceeding by far the importance of any individual to society. He sees also that in many businesses, naturally subject to the regulating influence of competition, artificial combinations are established by means of which monopoly prices are secured from consumers. But such privileges as these cannot pass unchallenged, and it follows that the important lawyers of every town are retained at large salaries to defend by their tempered talents the privileges that monopolists have

secured; while other lawyers are hired to depart from their legitimate profession to secure for business men some special legislation. Yet all this lies within the law. It cannot be branded as corrupt, although the least sum taken by a public official beyond his stated salary is properly called robbery.

As contrasted with this state of affairs, what does our successful candidate see in the office to which he has been elected? He will not long remain an incumbent before discovering that the position which he sought as a dignity brings with it no honor. What he thought to be a place of responsibility and power proves to be the center of no great influence, demanding in reality little beyond the perfunctory duties of a ministerial officer. He finds that there is small demand for the exercise of judgment and narrow play for the development of manly faculties;¹ he also learns, through the sinister suggestions of those whose personal interests he does not forward, that his tenure of office is insecure; and, last of all, he finds that his salary does not suffice to keep his family respectably in the social circles in which they wish to move, and that the gratitude of republics does not extend to provision for their servants against sickness and old age. Repeating again the assumption that our candidate is honest, at least within the meaning of the law, and that he is conscious of ordinary business capacity, we are war-

¹A tendency towards municipal reform has lately shown itself, which will in some degree set aside such criticisms as those expressed in the text. I refer to the abolition of special boards and the concentration of responsible power in the hands of the mayor. And yet it cannot be admitted that such a change in the mechanism of government can reach the seat of the evil. Municipal corruption is merely one of the symptoms of social disorder.

ranted in concluding that the career of an official will not harmonize with his tastes. He will, upon the first opportunity, retire to private life, which presents larger scope for efficient activity, and where the prizes to be gained are much greater.

Such are the conditions of a public career in most of the municipalities of the United States, and the observed results are altogether what might have been expected. The incumbants of local office are usually men of indifferent ability. If not actually depraved, they are at least colorless in character. Among "city fathers" of this sort there appears, from time to time, the shrewd yet unscrupulous man who, for personal aggrandizement, assumes complete control over public affairs. This is the explanation of "rings" and "jobs." Public corruption, therefore, is no accident. It is the necessary result of the idea that the best thing to do with a public official is to lay him on the shelf out of harm's way.

Is it not, then, correct to say that the theory of non-interference, which regards individual enterprise as the only proper depository of industrial power, and which relies wholly on competitive action as the guarantee of fair treatment in business affairs, is an obstacle to the restoration of harmony in social relations? Under the influence of the sentiment engendered by this theory, we see corporations to have attained power at the expense of the importance of the states; we see the symmetry of government to have been destroyed by the unwarranted extension of its legislative functions; we see the line between public and private interests to have been practically effaced by the prevalent philosophy of formal optimism, and, as a natural consequence, the ma-

chinery of government easily perverted from its high purpose to serve the private ends of corporations and individuals; and, what is worse than all else, we are beginning to see these disintegrating and enfeebling tendencies to bear their normal fruitage of political corruption and governmental incompetency. I am not arguing for any particular line of public policy, but rather for a change in the attitude of mind with which men commonly regard the agency of government; for great reforms are, after all is said, nothing but a change in the way people look at things.

THE TEST OF CONSERVATISM.

No one can be more conscious than myself of the incompleteness of the foregoing analysis, nor of the danger incurred that so hasty a presentation may give rise to conclusions for which I would not wish to be held responsible. And it may not be inappropriate to say, as guarding somewhat against misunderstanding, that I consider the attitude of mind by which this essay has been directed to be essentially conservative. It stands opposed to anarchy on the one hand, which is individualism gone to seed; and to socialism on the other, which, both historically and logically, is a revolt against the superficial claims and pernicious consequences of *laissez-faire*. Its purpose is to conserve true democracy, and this it would do by weakening the influence of commercial democracy which now rules the minds of men.

That my readers may see more clearly what is meant by a conservative application of the principles which our analysis has disclosed, I venture to suggest the lines along which further study might with

profit be pushed. The social problems of the present day, so far as they are forced upon us by the prevailing tendencies of industrial affairs, are of three distinct classes. The first may be termed the question of constitutional development; the second the question of monopolies; the third the question of labor-relations. All of these questions are intimately connected, and should be solved with a view to the mutual interests which they represent.

But before speaking directly of these problems, let us call attention to the critical point at which the people of this country have arrived in the process of their development as a nation. Other countries have the apparent advantage of being made up of homogeneous peoples, and, to a certain extent, of having to do with problems which spring from the unfolding of homogeneous ideas. This is not the case in the United States. The citizens of this country come from various parts of the world, bearing with them their race-thoughts and hereditary inclinations; and it thus comes about that, upon American soil, the conflicting ideas of older peoples have found a battle-ground. This, says the confirmed optimist, must lead to the establishment of a strong civilization, for only the best traits of the mingling races will be conserved. This, says the confirmed pessimist, will certainly prove the destruction of whatever by accident is good in American institutions. For myself, professing to be neither a fatalist optimist nor a fatalist pessimist, but professing rather to recognize the social destiny of man to lie largely under his own control, this mingling of races and of diverse ideas serves only to impress strongly upon my mind that the present is a critical epoch in the history of the American people.

But what are the ideas contending for mastery? What are the alternatives between which the people of this country are called upon to choose? Without specifying too minutely, we may say that most of the problems now claiming attention may be solved either by a further application of the principle which characterizes English political philosophy, or by an adjustment of our social relations to the principle which underlies German polity. The former lays stress upon the importance of the individual, and endeavors to define his rights by holding those who exercise power to a strict account. The latter looks in the opposite direction. It would merge the personality of the individual into that of the state, believing his rights to be guaranteed by massing so much power in the hands of the government that no motive can exist for administering public affairs in a tyrannous manner. That is to say, to speak in language more common, though perhaps no more easily understood, the American people are obliged to choose between the principle of individualism and the principle of socialism.

It is a mistake to admit of any compromise between these ideas. We might as well suggest to a traveler that he had better compromise between going east or going west in search of sunshine, and advise him to take his way northward.¹ The suggestion

¹ Mr. Hyndman has committed an historical blunder in the very title which appears upon the cover of his book. There is no "Historical Basis of Socialism in England." What Mr. Hyndman has shown is, that the theory of industrial rights in England has not kept pace in its development with the theory of political rights, and that an industrial mechanism has grown up which has not proven equally beneficial to all classes of Englishmen. But such a portrayal does not disclose an historical basis for socialism, for the

that the society of the future will be the survival of whatever is best in both socialism and individualism is evidence to my mind of a lack of intellectual discernment, for it springs from the pernicious habit of classifying social movements according to their external form, rather than by the life-giving principle which underlies them. Is public support of education socialistic or individualistic? Is the ownership of gas works by the municipal corporation socialistic or individualistic? My reply is, you cannot tell until you are acquainted with the consensus of opinion which permits these duties to be brought under the control of government. Socialism is more than a form of society, though neither its advocates nor its critics appear to appreciate the fact.

Were it my purpose to develop the line of thought thus suggested in a logical manner, it would be necessary at this point to show why the American people should hold to the English theory of personal liberty rather than adopt the German theory of state supremacy; but such an undertaking would carry me far beyond the appropriate limits of a monograph. Indeed, my only further purpose is to show what is meant by the claim that the relation of government to industrial action, portrayed in this essay, is of essentially a conservative character; and this can be done in no clearer manner than by calling attention to the fact that the views entertained are the natural and necessary development of that principle of polit-

development of which he speaks has not changed the quality of thought which gives character to the average Englishman. The sense of personality is stronger now than ever before. There can be no historical basis of socialism in England until the historical forces have changed the character of Englishmen.

ical liberty fundamental in English political philosophy. The opinions expressed in this essay are motivated by the theory of individualism, and not by the theory of socialism. They trace the evils of existing society to the fact that the principle of personal responsibility in the exercise of social powers has been arrested in its development, and they look for escape from present difficulties to the extension of this principle in industrial affairs. It is inaccurate to regard such a position as a compromise with socialism, or as an abandonment of the true spirit of English economic philosophy, or as a "reaction in political economy." It is true that the theory of governmental action, for which this essay contends, would press the principle of personal responsibility farther than it has yet been applied; but it is nevertheless conservative, for its aim is to bring industrial society into harmony with the fundamental thought of our political constitution. There is no other escape from socialism.

But how does the theory of industrial responsibility fit into the social problems? The first service which it renders is to limit the claims of any particular question. It draws, for example, a clear line between the labor question and the monopoly question. The nature of the responsibility in the first instance pertains to the relations which an employer, as the administrator of industrial power, holds to the men whom he employs; the nature of the responsibility in the second instance holds the employer and his men, together representing an industrial organization, accountable for the manner in which they serve the public. Nothing can lead to greater calamity than the confusion of these two questions,

for the method of treatment is essentially different for each. The labor question has to do with the internal organization of particular industries; it contemplates labor relations, and holds in view the rights and conditions under which work is done. All the matters which it considers must be adjusted on the basis of free contracts; for to settle them in any other way would result in the destruction of legal liberty. It is sometimes urged as against this conclusion that the Justices of the Peace in old England could fix wages: this is true, but it should be remembered that they could also order a man to be flogged who would not work at the wages fixed. It follows, then, that the labor question is not, and from its nature can never become, a political question, and they deceive themselves who suppose a well-crystallized political party may be erected upon the interest which it represents. And it should be noticed that the rules of interference of government with industrial action, which have been stated above, do not contemplate the solution of the labor problem. Indirectly, it is true, the state may lend its influence in such a solution by enacting laws for raising the plane of competitive action. Possibly, also, boards of legal arbitration may be established with some degree of success for some particular industries: but such measures do not touch the vital point of the labor controversy.

With the monopoly question, on the other hand, the state has everything to do. This is of necessity a political question: and, while it may be true that the laboring class is more directly interested in it than other classes, it is yet a question which touches the interests of all who are consumers of goods.

And it is most unfortunate that the leaders of the workingmen in this country have so confused the labor question with the monopoly question, that even men of considerable discernment believe them to be identical; for this confusion leads the conservative public to oppose every change in industrial affairs, thinking all changes to be necessarily in the direction of socialism. But one who appreciates the theory of personal responsibility cannot be thus deceived. There is a natural and an eternal enmity between the principle which underlies the conception of English liberty and monopolies of every sort, whether they be individualistic or socialistic. It is an intellectual blunder to say that all extensions of the functions of government are in the direction of socialism, for it may be that such a movement contemplates merely the extension of responsible control over a business which would be otherwise irresponsibly managed. Such an extension of governmental duties, therefore, finds its warrant in English political philosophy. The occasion for complaint is oppression, and not a particular form of oppression. A tyranny which springs from the unregulated workings of self-interest is as pernicious in its results, and presses as hardly upon the individual, as a tyranny which rests upon political privilege. And, if this essay have any merit, it consists in its candid recognition that the science of industrial society has not rendered to humanity the highest service of which it is capable, until its analysis of social relations discovers some principle for the guidance of legislation in directing or limiting competitive action. It was to this end that industries were classified as subject to the law of constant, increasing or diminishing re-

turns; for it is on the basis of some such classification that legislation must proceed in dealing with the question of monopolies.

The third question in the social problem, as above portrayed, pertains to the proper residence of political power for the control of industrial action. This is indeed a broad question. A glance at the structure of government in the United States shows it to be adjusted to the requirements of two leading ideas: the one pertaining to the balance of authority between the various departments which together make up government; the other to the balance of authority between the various grades of government which together make up the nation. It is this latter characteristic which is of importance to the present discussion. The theory of democracy, in addition to urging that power should only be placed in the hands of responsible agents, demands that all powers granted should lie as closely as possible to those upon whom they are exercised. This is equivalent to saying that local governments are the stronghold of democracy, and that they who profess to believe in democracy should come to the defence of the states against encroachments upon their original powers. It need hardly be said that the states have lost their importance as administrative centers. The encroachments of congressional action, on the one hand, and of the private corporations on the other, have reduced them to relative incompetency, and they are not now regarded as capable of dealing with such questions as the development of industrial society would naturally impose upon them. So far as the Federal government is concerned, the extension of its powers thus far does not seem to be open to severe criticism,

and we are only solicitous as to what this tendency will bring about in the future. The present condition of affairs is easily stated. Men are now coming to realize the disastrous consequences likely to emerge from the continued sway of irresponsible corporate power. They see that an extension of governmental agency can alone retain for them the fruits of an advanced industrial civilization; and, inasmuch as the states are incompetent to deal with such difficult questions, they turn of necessity to the Federal government. There is, of course, room for honest difference of opinion as to the desirability of such a tendency, but the fundamental point at issue should not be obscured in the hasty agitation for relief from pressing evils. It should be held firmly in mind that they who advocate the extension of Federal powers do not seek to conserve the American theory of government. They are Imperialists, and not Federalists.

This essay may then be regarded as a plea for the old principle of personal responsibility as adequate to the solution of all social, political and industrial questions; but it is at the same time urged that this principle must be accepted fearlessly and applied without reserve. It has not been attempted to portray the nature of this responsibility as regards labor relations; for this essay was limited to a consideration of the proper industrial functions of the state, and it is believed that the labor problem must be worked out on the basis of freedom of contract. To admit that the state should control labor relations is to admit the essential point in socialism. But the attitude of this monograph is different with regard to monopolies. These, it is claimed, should be controlled by state authority, and it is suggested that

following out the same idea by municipal
government."

the American theory of political liberty will lead men to rely as far as possible upon the efficiency of local governments in the exercise of such authority. When one considers the present attitude of private corporations towards the public, and the relation which exists between the Federal government and the state governments, he is constrained to say that the times are ripe for the rise of a democratic party.

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